



Tesco PLC Pension Scheme.

Trustee's report and financial statements

For the year ended 31 March 2023
Scheme Registration Number: 10057010

Tesco Pension Trustees Ltd.





Tesco PLC Pension Scheme

Trustee's report and financial statements for the year ended 31 March 2023

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Directors and Advisors

Principal Employer

Tesco PLC

Corporate Trustee

Tesco Pension Trustees Ltd

Directors

appointed by the Principal Employer

K Tindall
A Cheung
S Rigby
E Taylor

appointed by the Members

M Bagoban
L Booker (appointed on 4 July 2023)
E Parsons (resigned on 4 July 2023)
G Tuft

Independent Directors

R Smith (Chairman)
The Law Debenture Pension Trust Corporation PLC
represented by N Winterfrost (appointed on 1 April 2022)

Secretary to the Trustee

A de Baat
L Hay

Scheme Administrator

Tesco Stores Limited

Actuary

N Mobbs FIA, Willis Towers Watson

Independent Auditor

Deloitte LLP

Legal Advisors

Eversheds Sutherland LLP

Property Valuer

Cushman & Wakefield
CBRE

Directors and Advisors continued

Principal Investment Manager	Tesco Pension Investment Limited
Investment Advisors	Lane Clark & Peacock LLP Goldman Sachs Asset Management (ceased 30 March 2023) Albourne Partners Limited
Investment Managers	Blackrock (appointed 8 June 2023) Insight Investment Legal & General Investment Managers Limited PIMCO T Rowe Price (disinvested 23 November 2022)
Global Investment Custodian and Master Record Keeper	Northern Trust Corporation
Banker	HSBC Bank plc
Administrator and Enquiries	The Pensions Team, PO Box 567, Welwyn Garden City, AL7 9NN Telephone: 0345 070 1113 Email: Pensions.dept@tesco.com

Trustee's Report

How the Scheme is run

The Tesco PLC Pension Scheme ("the Scheme") is a defined benefit Scheme. It provides pension benefits for employees of Tesco PLC and the other participating employers (as listed below, collectively "the Employer"). The Scheme was closed to future benefit accrual from 21 November 2015.

The Scheme is established under Trust Deed and Rules dated 25 May 1976. The Scheme is registered with HM Revenue and Customs under Chapter 2, Part 4 of the Finance Act 2004. We are aware of no reason why the registration would be withdrawn.

The Scheme is registered with the Pensions Regulator, registration number: 10057010.

Other participating employers

During the year ended 31 March 2023 the other participating employers were:

- Tesco Stores Limited
- One Stop Stores Limited
- Tesco Personal Finance PLC
- Tesco Pension Investment Limited

The Trustee

Tesco Pension Trustee Limited exists only for the purpose of acting as Corporate Trustee of the Scheme. It is referred to as "the Trustee" throughout this report.

The Trustee is responsible for the administration and investment policy of the Scheme. The Directors usually meet at least four times a year to discuss the reports received from the Investment and Risk Committee (IRC), the Operations and Audit Committee (OAC), the Responsible Investment Committee (RIC), the Valuation sub Committee (VSC), the Discretions Committee, the GMP Working Party and external advisers.

The Scheme rules contain provisions for the appointment and removal of the Directors of the Trustee. Tesco PLC has the power to appoint and remove Trustee Directors, of whom there must be no more than ten and no fewer than two at any time. In line with legislation, one third of the Directors are selected after seeking nominations from members of the Scheme. All employed deferred and pensioner members may nominate candidates, and successful candidates are selected by a panel including representatives of the Directors, relevant trade unions and the pensions industry.

As well as attending full Trustee meetings, most of the Trustee Directors are also members of sub-committees, with these meetings normally being held quarterly. During the year ended 31 March 2023, the record of attendance at Trustee meetings was:

		Full Trustee Meeting	OAC *	IRC *	RIC *	Discretions Committee	Additional Meetings
Employer Appointed:	Mr S Rigby	6	N/A	N/A	N/A	N/A	5
	Mr K Tindall	6	N/A	7	N/A	N/A	4
	Ms A Cheung ^b	5	N/A	N/A	N/A	N/A	7
	Ms E Taylor	5	N/A	N/A	N/A	N/A	3
Member Nominated:	Mr M Bagoban ^b	7	N/A	7	4	N/A	8
	Ms E Parsons	7	5	N/A	N/A	3	6
	Mr G Tuft	7	5	N/A	N/A	3	5
Independent:	Mr R Smith (Chair) ^b	7	5	7	4	N/A	9
	Ms N Winterfrost ^a	7	5	6	4	N/A	9
Other Committee Members:	Ms L Heywood	N/A	N/A	7	4	N/A	1
	Mr E Boomla ^c	N/A	2	N/A	N/A	N/A	N/A
	Ms J Parker ^c	N/A	1	N/A	N/A	N/A	1
	Ms K Majid	N/A	4	N/A	N/A	N/A	1

* OAC = Operations and Audit Committee: IRC = Investment Risk Committee RIC = Responsible Investment Committee

a Ms N Winterfrost replaced Mr J Stannard on the Trustee Board, the OAC, the IRC, the RIC, and the Valuation Sub-Committee on 1 April 2022.

b These Directors met more regularly as Members of the Valuation Sub-Committee to consider the 31 March 2023 actuarial valuation.

c Ms J Parker resigned from the OAC a non-Trustee member in May 2022. Mr E Boomla was appointed to the OAC as a non-Trustee member in July 2022.

Trustee's Report (continued)

The Trustee (continued).

There were nine additional meetings during the year:

- a Trustee training day
- an OAC training day
- an IRC training day
- three extraordinary Trustee meetings called on deal with:
 - the Company's share buyback announcement
 - the 31 March 2023 actuarial valuation
 - the mini-budget and impact on the Scheme
- three Valuation Sub-Committee meetings called to deal with matters related to the 31 March 2023 actuarial valuation

GMP Equalisation

On 26 October 2018 the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Trustee of the Scheme is aware that the issue will affect the Scheme and has actively been considering its implications, including setting up a dedicated GMP working party which reports to the Trustee and its sub-committees. On 20 November 2020, the High Court handed down a further judgement confirming that schemes which provide GMPs need to revisit and where necessary top up historic Cash Equivalent Transfer Values that were calculated based on unequalised benefits. Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the Financial Statements and therefore have not included a liability in respect of these matters in these Financial Statements. They will be accounted for in the year they are determined.

Financial developments and financial statements

The financial statements included in this annual report are the financial statements required by the Pensions Act 1995. They have been prepared and audited in compliance with regulations made under sections 41(1) and (6) of that Act.

The value of the Scheme assets decreased as a result of market volatility over the year, as noted below. During the year under review, the total net assets of the Scheme decreased to £12.9billion (2022: £21.1 billion). Over the year the Scheme had a negative cashflow due to outgoing benefits exceeding contributions.

Market volatility over the year

Over the last year, there's been significant market volatility, and in particular a large rise in government bond yields.

The rise in government bond yields has significantly reduced the value of the Scheme's liabilities. At the same time, the value of the Scheme's assets, and the interest rate and inflation protection within the LDI portfolio, has moved in line with the market and the fall in capital value of government bonds. The Scheme operates a robust and structured collateral ladder. The Scheme was able to meet all collateral calls over the year.

Over the year to 31 March 2023, the financial health of the Scheme remained well protected. The Scheme had 102% of the amount needed to pay everyone's benefits on 31 March 2023. This is slightly lower than the financial position on 31 March 2022 of 104% due to a fall in the market value of some of the Scheme's investments. Even so, the security of all members' benefits remains strong.

Banking crisis

The US regional bank crisis, which started in March 2023, saw the fall of Silicon Valley Bank and Signature Bank, the sale of First Republic Bank to JPMorgan Chase, and significant loss of value in bank stocks and bonds. This arose against a backdrop of the Federal Reserve raising interest rates sharply since March 2022 to combat high inflation. The fear of bank failure spread to Europe, hitting Credit Suisse particularly hard and finally leading to it being taken over by UBS. The Scheme had minimal exposure to these impacted banks.

Statement of Trustee’s Responsibilities

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102), are the responsibility of the Trustee. Pension Scheme regulations require and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of that year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparing of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

The Trustee is also responsible for making available certain other information about the Scheme the form of an annual report.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control. The Trustee is responsible for the maintenance and integrity of the corporate and financial information included on the Scheme’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Trustees Responsibilities in Respect of Contributions

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Membership statistics

	31 March 2023	31 March 2022
Deferred pensioners	248,904	255,825
Pensioners	85,545	82,173
Leavers yet to choose options & refunds held for untraced leavers	2,160	2,171

Trustee's Report (continued)

Pension increases

The Scheme increases pensions in payment every year in line with price inflation, up to a maximum of 5% a year. Price inflation for pensions built up before 1 June 2012 is measured by the Retail Prices Index. Price inflation for pensions built up from 1 June 2012 is measured by the Consumer Prices Index. Increases above this may be awarded at the discretion of the Employer. The Scheme increases Guaranteed Minimum Pensions in line with statutory requirements.

In April 2022, pensions in payment in excess of the Guaranteed Minimum Pension that were built up before June 2012 were increased by 5%. Pensions in payment built up since June 2012 were increased by 5%. The following increases to pensions in payment were provided in earlier years:

Date	Pension built up before June 2012	Pension built up after June 2012
1 April 2021	1.4%	0.7%
1 April 2020	2.7%	1.8%
1 April 2019	2.5%	1.8%
1 April 2018	4.0%	3.0%
1 April 2017	2.6%	1.8%
1 April 2016	1.3%	0.3%
1 April 2015	1.1%	0.3%
1 April 2014	2.8%	1.9%
1 April 2013	3.3%	2.7%
1 April 2012	3.9%	n/a

None of these increases were discretionary.

Pensions in payment on the Wm Low & Company Retirement Benefits Scheme basis, paid from the Tesco PLC Pension Scheme, are not increased above the statutory increase on the GMP part of the pension. The Scheme must increase the pensions of members who left the Scheme on or after 1 January 1986 and before retirement in accordance with statutory legislation. This legislation requires full increases to the total pension built up for members who leave on or after 1 January 1991. For any leavers between 1 January 1986 and 1 January 1991 legislation only requires increases to the amount of pension built up from 1 January 1985. The Scheme provides full increases to the whole pension built up for these leavers, and therefore, the Scheme provides increases beyond the basic statutory requirement.

Deferred pensions have been increased in line with statutory requirements for all sections of the Scheme.

Transfer values

Cash equivalents paid during the Scheme year with respect to transfers have been calculated and verified in accordance with current legislation and do not include discretionary benefits.

Administration

The Scheme is administered on behalf of the Trustee by the Pensions Team of Tesco Stores Limited, to which any enquiries should be addressed. The contact details are:

Address: The Pensions Team
PO Box 567
Welwyn Garden City
AL7 9NN
Telephone: 0345 070 1113
Email: pensions.dept@tesco.com

The management and staff involved in running the Scheme (including the Secretary to the Trustee) are employed by Tesco Stores Limited and other related subsidiaries of Tesco PLC. The Scheme bears all costs of investment, Trustee expenses, stationery, postage and other sundry administrative costs.

Trustee's Report | Investment Report

This section of the report covers:

- What are Trustee's goals for the investments?
- How decisions over the investments are taken
- Significant changes made since 31 March 2022
- How investment markets and the Scheme performed
- The performance of individual mandates
- Some additional information about the management of the Scheme's assets

The Trustee's investment objectives

The main objective of the Trustee is to ensure that the Scheme is able to pay the members and their families their promised benefits. To meet this objective, the Trustee invests in a diverse range of investments, balancing risk with investment returns.

As the benefits are payable over a long period, the Trustee takes a long-term view when making investments. This means the performance can vary from year to year and, in some years, returns may be negative. A single poor year will not directly affect the ability to meet the longer-term objectives.

How decisions over the investments taken

The Trustee sets a long term investment strategy, after obtaining advice from consultants for both long and medium term allocation. The Trustee will continually review allocations and regularly monitor the investment assets. The long term 2033 target asset allocation, as stated in the September 2021 Statement of Investment Principles (SIP), is :

Global equities	5.0%
Global fixed income	27.2%
Property	0%
Alternatives	0%
Income Generating Assets	32.8%
Credit Opportunities	5.0%
Treasury	30%

Following receipt of £2.6bn of proceeds from the sale of the Tesco Asia business, in December 2020, the Scheme has been undertaking a de-risking programme, which was accelerated in the financial year. Due to the accelerated de-risking programme and significant market volatility following the UK Government's mini-budget announcement of September 2022, the allocations were reviewed by the Trustees and a deviation from the ranges agreed, as permitted in the Investment Management Agreement side letter signed in July 2022

Tesco Pension Investment (TPI) has been given a mandate from the Trustee to act as principal fund manager for the Scheme. TPI has been given some scope to deviate from the benchmark asset allocation in the intervening periods as outlined in the investment management agreement between them, and under the scrutiny of the Investment Risk Committee and the Operations and Audit Committee. An Asset Allocation Committee containing the senior fund managers at TPI meets regularly and decides on the tactical implementation of investment strategy.

How have investment markets and the Scheme performed?

The total Scheme returned -32.8% and -6.0% over 1 and 3 years respectively to March 2023. The Scheme excluding LDI has performed on a 1, 3 and 5 year basis as follows.

	Scheme excl. LDI	Benchmark	Difference
1 year	-11.2%	-11.0%	-0.2%
3 year	4.5%	3.1%	1.4%
5 year	4.6%	3.3%	1.3%



Trustee's Report | Investment Report (continued)

The total fund benchmark is a composite based on a combination of these asset classes and tactical asset allocation; performance for each asset class is measured against the benchmarks is outlined below.

How individual asset mandates performed

Equities:

The Scheme's equity investments generated an absolute return of -1.1% from 31 March 2022 to 19 September 2022 when the internal equity portfolio was liquidated to cover collateral calls. In January 2023 the scheme invested in externally managed equities through pooled investment vehicles.

Fixed Income:

The Scheme's fixed income investments generated an absolute return of -7.9%.

The Scheme's fixed income portfolio which is internally managed by TPI returned 0.8% less than the Fixed Income Composite benchmark TR Hedged GBP over the year to end March 2023.

Property:

The Scheme's direct and pooled property investments generated an absolute return of -13.2%. In the year property underperformed the IPD UK Quarterly Universe (benchmark) by -0.2% in local currency terms.

Alternative Assets:

The Scheme's Alternative assets generated an absolute return of -14.0%. In the year Alternative assets underperformed the 7.0% nominal return (benchmark) by -21.0% in local currency terms.

Income Generating Assets:

The Scheme's Income Generating assets generated an absolute return of 1.4%. In the year Income Generating assets underperformed the 4.75% nominal return (benchmark) by -3.3% in local currency terms

Risk mitigation:

Approximately 1% of the Scheme's assets were held in investments denominated in currencies other than GBP. For risk management purposes, however, the decision was made to hedge some exposures against currency risk, meaning that the overall risk mitigation from overseas currency exposure was lower.

Trustee's Report | Investment Report (continued)

Other disclosures

Question

Who makes sure the assets are held securely?

Answer

TPI makes sure that all assets are held securely as follows:

- All listed securities are held with the Scheme's global custodian Northern Trust.
- All exchange traded derivatives are registered with the Bank of America Merrill Lynch, the Scheme's global clearer.
- OTC securities are bilateral agreements between the Scheme and the individual counterparty. These are collateralised daily.
- Unlisted alternative assets are registered in the name of the Scheme with the administrators of the individual fund.
- Direct property assets are held in the name of the Scheme's appointed property custodian, HSBC Trust Company, on behalf of the Scheme. Title deeds are held with both Bryan Cave Leighton Paisner LLP and Brodies LLP solicitors.
- The majority of investments in pooled funds are registered in the Scheme's name with the fund administrator. The remainder of pooled funds are registered in the nominee name of Northern Trust on behalf of the Scheme.

Could the Trustee sell the assets if it needed to?

At the year-end, £8,605m (66.3%) of investment assets were quoted on a recognised stock exchange or held in cash or assets readily convertible to cash and are therefore considered to be marketable on a short-term basis. Longer periods may be needed to dispose of:

- Properties which total £1,550m (11.9%) consisting of direct property note 12 and indirect property note 13.
- Alternative assets which total £2,833m (21.8%) consisting of private equity and hedge funds note 13.

AVC investments are excluded from the numbers above as these are member specific.

Does the Trustee lend out any of the assets?

Northern Trust manage a stock lending programme for the Scheme which covers all listed equity and fixed income assets held in its custody. Northern Trust fully indemnifies this program from the failure of counterparties to return stock.

Eligible collateral is currently as follows:

- Obligations issued or guaranteed by OECD (Organisation for Economic Cooperation and Development) member states or their local governments, agencies, instrumentalities or authorities. Minimum rating of AA- or higher by at least one NRSRO (Nationally Recognised Statistical Rating Agency) (except for obligations issued or guaranteed by the U.S. Government and U.K. Government)
- Equity issues which are part of indices are approved by the Agent's appropriate risk committee from time to time
- No cash collateral is used in this program.

How is performance measured?

The performance is measured by calculating the difference in valuation at the start and the end of period after accounting for flows. Performance of the Scheme investments is closely monitored by the Trustee and Tesco Pension Investment Limited. These performance calculations are cross-checked against reports produced by the managers and third party independent professional advisers.

Where is there more information on the Trustee's investment strategy?

The Trustee has produced a Statement of Investment Principles as a requirement of Section 35 of the Pensions Act 1995 (as updated by the Pensions Act 2004) which is available on request from the Pensions Team.

Extra security for the Scheme

The Scheme has the benefit of a security arrangement over certain Tesco Stores up to a maximum of £775m, which provides extra security to the Scheme if Tesco is in default. The stores that are subject to this security agreement are valued independently assuming vacant possession by Cushman & Wakefield. The Trustee monitors these valuations with assistance from TPI.

Responsibility as an investor

The Trustee invests its assets responsibly in delivering its objective to pay the right benefit to members at the right time. The Trustee considers climate change to be a material financial risk to the Scheme and, alongside other environmental, social and governance (ESG) considerations, is likely to influence the risk and return of the Scheme's investments over the long term.

The Trustee is also supported by a team of investment professionals who work for the Trustee and the Scheme. This team is employed by a separate company, Tesco Pension Investment Limited ("TPI"), which is authorised and regulated by the Financial Conduct Authority and wholly-owned by the Trustee.

TPI and other external fund managers are responsible for the day-to-day management of the Scheme's assets. As the investment of the Scheme's assets is delegated to the Scheme's investment managers, the Trustee expects its managers (including TPI), to consider ESG, including climate change, factors as an integral part of their investment processes. The Trustee recognises that certain elements of responsible investment (for example voting practices) apply more readily to equity investments than other types of assets. Nevertheless, the Trustee expects TPI and its external fund managers to consider its views on responsible investment across the whole portfolio where appropriate and possible.

The Trustee has previously made a commitment to aim for the Scheme's portfolio of assets to have reached net-zero carbon emissions by no later than 2050 and it has put in place a revised Responsible Investment Policy. The Trustee has met the requirements of the Pension Scheme Act 2021 in relation to climate change, and climate related risks and opportunities.

A full summary of the actions taken in relation to this Net-Zero commitment, and the Pension Scheme Act requirements are detailed further in the Trustee's first annual Climate Change Report. The Trustee's second annual [Climate Change Report](#) will be published later this year.

This report details how the Trustee has considered and managed climate related risks and opportunities and contains the Trustee's disclosure requirements under the Financial Stability Board's Taskforce on Climate related Financial Disclosures (TCFD).

The Trustee has also further developed its approach to Stewardship and Engagement over the year to 31 March 2023. This included updating its stewardship priorities, its Responsible Investment policy, and its Escalation plan for engagement and voting policy. Information on voting undertaken over the year is set out in the Scheme's [Implementation Statement](#) and full details on the Trustee's approach to Stewardship, including voting and broader engagement across the asset classes it invests in can be found in our 2022 [UK Stewardship Code submission](#).

Compliance statement

Scheme advisers

There are written agreements in place between the Trustee and each of the Scheme Advisers listed on pages 3 and 4 of this report and also with the Principal Employer.

Scheme investments

The Investment Managers appointed on behalf of the Trustee to manage funds under section 34(4) of the Pensions Act 1995 are appropriately authorised under the Financial Services and Markets Act 2000 to manage investments or are specifically exempted from the requirements of the Act. The investment managers appointed have the appropriate knowledge and experience necessary to manage the particular investments delegated to them.

Tesco Pension Investment Limited is also authorised under the Financial Services and Markets Act 2000.

Trustee's Report (continued)

The Pensions Advisory Service (TPAS)

Any concern about the Scheme should be referred to Tesco Pension Trustees Limited who will try to resolve the problem as quickly as possible.

In June 2021, the Money and Pensions Service brought its three consumer services together under the new name, MoneyHelper. So, the Money Advice Service, The Pensions Advisory Service and Pension Wise now all come under MoneyHelper. MoneyHelper is here to make money and pension choices clearer. It provides impartial help, backed by government and free to use. MoneyHelper can be contacted through:

Pensions Helpline: 0800 011 3797

Website: moneyhelper.org.uk

Pensions Ombudsman

In cases where a complaint or dispute cannot be resolved, normally after the intervention of TPAS, an application can be made to the Pensions Ombudsman for him to investigate and determine any complaint or dispute of fact or law involving occupational pension Schemes.

Address: The Pensions Ombudsman
10 South Colonnade
London
E14 4PU

Telephone: 0800 917 4487

Website: pensions-ombudsman.org.uk

The Pensions Regulator

The Pensions Regulator is the regulatory body for work-based pension Schemes in the UK and replaced OPRA (the Occupational Pensions Regulatory Authority) in April 2005. The Regulator's objectives are to protect the benefits of members of work based pension Schemes; to promote good administration of work based Schemes and to reduce the risk of situations arising that may lead to claims for compensation from the Pension Protection Fund.

The Regulator does not deal with queries about individuals' pension benefits but can be contacted by anyone that has concerns about the way that the Scheme is being managed.

Address: The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

Telephone: 0345 600 1011

Website: thepensionsregulator.gov.uk

Registrar of Occupational and Personal Pension Schemes

The Pension Tracing Service is available for members (and their dependants) of previous employers' Schemes who have lost touch with earlier employers and their trustee. To trace a benefit entitlement under a former employer's Scheme, enquiries should be addressed to:

Address: The Pension Tracing Service
The Pension Service
Post Handling Site A
Wolverhampton
WV98 1AF

Telephone: 0800 731 0193

Website: gov.uk/find-pension-contact-details

Internal disputes resolution procedures

A disputes resolution procedure has been agreed by the Trustee to resolve any queries raised by beneficiaries or potential beneficiaries of the Scheme and details of this can be obtained by writing to the contact below.

The Pensions Team, PO Box 567, Welwyn Garden City, AL7 9NN. Telephone: 0345 070 1113.

Signed on behalf of the Tesco Pension Trustees Limited as Trustee of the Tesco PLC Pension Scheme.

Trustee Director _____

Date: _____

Trustee Director _____

Date: _____

Report on Actuarial Liabilities

As required by Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS 102), the Trustee's Report and Financial Statements do not include liabilities in respect of promised retirement benefits.

Under section 222 of the Pensions Act 2004, every Scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions, which represent the present value of benefits to which members are entitled based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The last full actuarial valuation was performed by Neil Mobbs of Towers Watson Limited as at 31 March 2022. The valuation indicated that, on the basis of contributions being paid at the agreed levels, the Scheme would be able to meet benefits as they fall due, assuming the Scheme continues.

On discontinuance the assets would be insufficient for the Trustee to pay the benefits in full, should they continue to run the Scheme with low-risk investments. The next actuarial valuation is expected to be carried out as at 31 March 2025.

A Schedule of Contributions was agreed by the Trustee and certified by the Actuary on 5 January 2023, setting out the contributions payable to the Scheme up until 5 January 2028. The Statutory certificate is given on page 16.

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Accrued Benefits Method.

Significant actuarial assumptions

The table below summarises the main financial assumptions used to calculate the Scheme's technical provisions:

Financial assumptions at 31 March 2022

	% pa
Discount rate	2.85
Retail price inflation (RPI)	3.7
Consumer price inflation (CPI)	RPI minus 1.0 from 2030, then RPI minus 0.5
Statutory increases to non GMP pensions in deferment	3.6
Pension increases:	
- Pension earned before 1 June 2012* (RPI up to 5% a year)	3.3
- Pension earned after 31 May 2012 (CPI up to 5% a year)	3.1

*with the exception of GMP earned prior to 6 April 1988 which is non-increasing in payment

All of the financial assumptions actually use the full gilt yield or inflation curves (as set out in the Statement of Funding Principles dated 5 January 2023). We have shown average "single equivalent" rates above where appropriate.

Significant actuarial assumptions (continued)

Demographic assumptions at 31 March 2022

The main demographic assumptions used to calculate the Scheme's technical provisions are summarised below:

Mortality after retirement

Men	96% of SAPS S3 normal male pensioners heavy for staff 112% of SAPS S3 normal male pensioners light for senior managers
Women	105% of SAPS S3 normal female pensioners heavy for staff 87% of SAPS S3 all female pensioners middle for senior managers

These tables are projected to 2018 with CMI 2020 improvements (core parameters and long-term improvement rate of 1.5% a year) and from 2018 onwards in line with the CMI 2021 improvements with a long-term rate of improvement of 1.5% a year, core smoothing parameters and an initial improvement addition of 0.5% a year for Senior Managers (no additional improvements are included for Staff members).

Allowance for commutation

Members are assumed to commute 75% of the maximum permitted at retirement on the agreed commutation terms.

Valuation as at 31 March 2022

Net assets of Scheme:	£21,071m
Technical Provisions:	£20,212m ¹
Surplus:	£859m
Funding level:	104.3%

¹Includes recognition of additional return expected from the financial interest the Scheme has in a portfolio of Tesco properties, expected to mature in around 2040, facilitated by the complementary nature of the separate charge on Tesco property (a contingent asset) in the event of insolvency of Tesco.



Actuary's Certification of Schedule of Contributions

Name of Scheme: Tesco PLC Pension Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the Statutory Funding Objective could have been expected on 31 March 2022 to continue to be met during the period for which the Schedule is in force.

Adherence to Statement of Funding Principles

2. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 5 January 2023.

The certification of the adequacy of the rates of contributions for the purpose of securing that the Statutory Funding Objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

Neil Mobbs
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited

5 January 2023

Watson House
London Road
Reigate
Surrey
RH2 9PQ



Trustee's Summary of Contributions

This summary of contributions has been prepared by, or on behalf of the Scheme and is the responsibility of the Trustee. It sets out the Employer and any member contributions payable to the Scheme in respect of the period 1 April 2022 to 31 March 2023 at least in accordance with the Schedules of Contributions certified by the Scheme Actuary on 21 December 2022 and 5 January 2023. The Scheme auditor reports on contributions payable under the Schedules in their auditor's statement about contributions.

Contributions required by the Schedules of contributions

Employer

Ongoing Scheme expenses

Contributions payable under the Schedules of Contributions as reported on by the Scheme Auditor, and as per the financial statements

£'m

£21.3

£21.3

Signed on behalf of the Tesco Pension Trustees Limited as Trustee of the Tesco PLC Pension Scheme.

Trustee Director _____

Trustee Director _____

Date: _____

Date: _____



Independent Auditor's Statement About Contributions to the Trustee of the Tesco PLC Pension Scheme

We have examined the summary of contributions to the Tesco PLC Pension Scheme for the Scheme year ended 31 March 2023 which is set out on page 17.

In our opinion contributions for the Scheme year ended 31 March 2023 as reported in the summary of contributions and payable under the Schedules of Contributions have in all material respects been paid from 1 April 2022 to 4 January 2023 at least in accordance with the Schedule of Contributions certified by the Scheme Actuary on 21 December 2022 and subsequently at least in accordance the Schedule of Contributions certified by the Scheme Actuary on 5 January 2023.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the Schedules of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedules of Contributions.

Respective responsibilities of Trustee and the auditor

As explained more fully in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a Schedule of Contributions and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedules of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedules of Contributions and to report our opinion to you.

Use of our report

This statement is made solely to the Trustee, as a body, in accordance with Regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our work has been undertaken so that we might state to the Trustee those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body for our work, for this statement, or for the opinion we have formed.

Deloitte LLP, Statutory Auditor, Birmingham, United Kingdom

Date:

Independent Auditor's Report to the Trustee of the Tesco PLC Pension Scheme

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of the Tesco PLC Pension Scheme (the 'Scheme'):

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2023 and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

We have audited the financial statements which comprise:

- the fund account;
- the statement of net assets; and
- the related notes 1 to 28.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Trustee is responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Trustee

As explained more fully in the Statement of Trustee's responsibilities, the Trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to liquidate the Scheme or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [frc.org.uk/auditorsresponsibilities](https://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the Scheme's industry and its control environment, and reviewed the Scheme's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of the Trustee and pension management, their own identification and assessment of the risks of irregularities including those that are specific to the Scheme's business sector.

We obtained an understanding of the legal and regulatory framework that the Scheme operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Pensions Act 2004, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Scheme's ability to operate or to avoid a material penalty. These included the Scheme's regulatory requirements.

We discussed among the audit engagement team

including relevant internal specialists such as pension actuarial, IT and real estate industry specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the misappropriation of investment assets due to the significant size of investment transactions and balances. In response we have:

- obtained an understanding of the relevant controls over investment holdings and transactions;
- agreed investment holdings to independent confirmations; and
- agreed investment and cash reconciliations to independent sales and purchase reports and bank statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of the Trustee and pension management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of Trustee meetings and reviewing correspondence with the Pensions Regulator.

Use of our report

This report is made solely to the Scheme's Trustee, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte LLP, Statutory Auditor, Birmingham, United Kingdom

Date: _____

Fund Account

Year ended 31 March 2023

	Note	2023 £'m	2022 £'m
Contributions and benefits			
Deficit funding	4	21.3	25.0
		21.3	25.0
Benefits paid and payable	5	(334.7)	(310.1)
Payments to and on account of leavers	6	(93.0)	(119.1)
Administrative expenses	7	(21.4)	(21.9)
		(449.1)	(451.1)
Net (withdrawals) from dealings with members		(427.8)	(426.1)
Returns on investments			
Investment income	8	360.5	312.4
Change in market value of investments	9	(8,060.9)	1,459.6
Investment management expenses	10	(57.9)	(53.0)
Net return on investments		(7,758.3)	1,719.0
Net (decrease)/ increase in the fund during the year		(8,186.1)	1,292.9
Net assets of the Scheme			
At 1st April		21,071.4	19,778.5
At 31st March		12,885.3	21,071.4

The notes on pages 23 to 38 form part of these financial statements.

Statement of Net Assets (available for benefits)

As at 31 March 2023

	Note	2023 £'m	2022 £'m
Investment assets			
Equities	9	0.6	4,357.8
Bonds	9	7,135.8	13,120.2
Property	12	544.8	882.9
Pooled investment vehicles	13	4,914.6	5,691.6
Derivatives	14	543.9	655.7
AVC investments	16	40.8	45.8
Cash	18	2,589.8	1,176.9
Other investment balances	19	281.7	679.9
		16,052.0	26,610.8
Investment liabilities			
Bonds	9	(216.5)	(281.6)
Derivatives	14	(2,544.2)	(1,001.0)
Other investment balances	19	(421.0)	(4,272.9)
		(3,181.7)	(5,555.5)
Total investments		12,870.3	21,055.3
Current assets	23	49.3	69.6
Current liabilities	24	(34.3)	(53.5)
Net assets of the Scheme		12,885.3	21,071.4

The notes on pages 23 to 38 form part of these financial statements.

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations for the defined benefit section, is dealt with in the Report on Actuarial Liabilities on pages 14 to 15 and these financial statements should be read in conjunction with this Report.

Signed on behalf of the Trustee:

Trustee Director _____

Trustee Director _____

Date: _____

Date: _____

Notes to the Financial Statements

1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 (FRS 102) – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (SORP) (June 2018).

2. Identification of the financial statements

The Fund is established as a trust under English law. The address for enquiries to the Scheme is included in the Trustee's report.

3. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated below:

Consolidation

- These consolidated financial statements include the Scheme's subsidiary undertakings.
- The results of subsidiary companies which are considered as investment vehicles only, are included on the basis of the latest available Net Asset Statements by fair value as at 31 March each year.
- Further information about the subsidiary undertakings is given in note 17 to the financial statements.
- Accounting policies have been consistently applied by the Scheme and its subsidiaries.

Foreign currencies

- Assets and liabilities in foreign currencies are expressed in Pounds sterling at the exchange rate ruling at the year-end. Income from overseas investments is translated into Pounds sterling at the rate on the date at which it is received.
- Foreign currency transactions are translated into Pounds sterling at the spot exchange rate at the date of the transaction.
- Gains and losses arising on conversion or translation are dealt with as part of the change in market value of investments.

Contributions

- Deficit funding contributions from the employer are accounted for as they fall due under the Schedules of Contributions in force at the time, the Scheme rules and the recommendations of the actuary.
- Additional contributions from the employer are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, when received.

Transfer to and from other Schemes

- Transfer values represent the capital sums either receivable in respect of members from other approved pension schemes of previous employers or payable to the approved pension schemes of new employers for members who have left the Scheme. They are accounted for on a cash basis. The liability normally transfers when a payment is made, unless the Trustee of the receiving Scheme have agreed to accept the liability in advance of receiving the funds.
- The Scheme currently only accepts transfer in payments in exceptional circumstances. These are almost entirely as a result of acquisitions by Tesco PLC. A member with preserved benefits in a Scheme due to be wound up can also ask for a transfer in.

Benefits payable

- Members can choose whether to take their benefits as only pension or as pension and a cash lump sum. Members whose total benefits in all registered pension schemes are less than £30k may take their pension as a one off lump sum. Pensions and cash sums are accounted for on an accruals basis on the later of date of leaving or retirement and the date on which the member informs the Trustee of their choice.

Other expenses

- Administrative expenses and term insurance policies are accounted for on an accruals basis.

Investment income

- Dividends from equities is accounted for on the date stocks are quoted ex-dividend on an accruals basis.
- Income from bonds is accounted for on an accruals basis
- Income from pooled funds is automatically reinvested in new units with the exception of income from private equity and indirect property funds, which is received by the Scheme.

Investment (continued)

- The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.
- Income from cash and short-term deposits is accounted for on an accruals basis.
- Rental income is accounted for as earned on an accruals basis.
- Interest in respect of repurchase agreements is accounted for on an accruals basis.
- Interest on cash deposits is accrued on a daily basis.

Other Income

- Income relating to administration and members benefits is accounted on an accrual basis.

Derivatives

- Derivative contracts are valued at fair value. The fair value on the contracts is shown as a separate line within investments in Note 14.
- Any changes in the fair value of derivative contracts are included in change in market value where the economic purpose of the contracts relates to assets. Where the economic purpose relates to income the change in fair value is included in investment income in Note 8.
- Fair values of futures contracts are determined using exchange prices at the reporting date. The fair value is the unrealised profit or loss at the current bid (asset) or offer (liability) market quoted price of the contract. Amounts due from the broker represent the amounts outstanding in respect of the initial margin (representing collateral on the contracts) and any variation margin which is due to or from the broker. The amounts included in change in market value are the realised gains and losses on closed futures contracts and the unrealised gains and losses on open futures contracts.
- Fair values of exchange-traded options are determined using the exchange price for closing out the option at the reporting date. If a quoted market price is not available on a recognised exchange, the over the counter ("OTC") contract options' fair value is determined by the custodian using generally accepted pricing models such as Black Scholes, where inputs are based on market data at the year-end date.
- The fair value of the interest/inflation rate swaps, currency swaps and total return swaps is calculated using discounted cash flow pricing models based on the current value of future expected net cash flows arising over the swap, taking into account the time value of money, or the market price of comparable instruments at the year-end date, if they are publicly traded. Interest is accrued monthly on a basis consistent with the

terms of the contract. The amounts included in change in market value are the realised gains and losses on closed contracts and the unrealised gains and losses on open contracts. Net receipts or payments on swap contracts are either reported in investment income (where the economic purpose relates to income) or change in market value (where the economic purpose relates to assets).

- The fair value of the forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract was matched at the year-end with an equal and opposite contract.

Investments

- Listed equities are valued on the basis of the bid price quoted on the relevant stock market.
- Freehold and leasehold property is stated at open market value at the year-end, as estimated by the Trustee on the basis of quarterly professional advice from CBRE. No depreciation is provided on freehold buildings or long leasehold properties.
- Pooled Investment Vehicles
 - Indirect property investments are held as property unit trusts of the pooled investment vehicles. The property unit trusts are valued at the net asset value of the underlying investments, as at 31 March each year.
 - Properties within the Gold unit trusts (note 22) are valued on a reversionary basis in accordance with RICS on the basis of professional advice from Cushman & Wakefield. A special assumption has been made to exclude rental income from this valuation, which represents the substance of the underlying structures.
 - Private equity funds and unlisted equity investments are unquoted and are valued at the managers' estimate of fair value based on guidelines issued by the British Venture Capital Association or European Venture Capital Association. Where the manager is unable to provide a valuation as at the Scheme year-end date, the most recent valuation is taken and adjusted for any cash flows which have since taken place.
- Funds of Hedge funds are valued based on the un-audited net assets value of the funds as at 31 March each year as provided by the managers.
- Repurchase agreements are accounted at nominal value in other investment balances.
- Investment management fees are accounted for on an accruals basis. Acquisition costs are included in the purchase cost of investments.
- Where stock lending has been carried out the securities 'loaned' have been included in the net assets statement to reflect the Scheme's continuing economic interest of a proprietary nature in those securities. The total amount of stock lent at the year-end has been disclosed in note 15 to the financial statements together with a description of the related collateral.

4. Employer contributions

	2023 £'m	2022 £'m
Deficit funding*	21.3	25.0
	21.3	25.0

* As per the Schedule of Contributions certified by the Scheme Actuary on 21 December 2020, deficit funding contributions of £25m per annum are due in respect of the levies and running costs of the Scheme. The annual contribution changed from £25m to £17m in reference to the Schedule of Contributions dated 5 January 2023 with effect from 1 October 2022.

5. Benefits paid and payable

	2023 £'m	2022 £'m
Pensions	(251.2)	(230.2)
Commutation and lump sum retirement benefits	(79.0)	(73.9)
Lump sum death benefits	(3.4)	(5.8)
Taxation where lifetime or Annual allowance exceeded	(1.1)	(0.2)
	(334.7)	(310.1)

6. Payments to and on account of leavers

	2023 £'m	2022 £'m
Payments in respect of leavers	(2.2)	(1.9)
Individual transfers out to other Schemes	(90.8)	(117.2)
	(93.0)	(119.1)

7. Administrative expenses

	2023 £'m	2022 £'m
Pension Protection Fund Levy	(12.1)	(15.8)
Actuarial fees	(5.5)	(3.5)
Audit fee	(0.3)	(0.3)
Legal and Other professional fees	(3.5)	(2.3)
	(21.4)	(21.9)

Tesco Stores Limited provides administration services to the Scheme. No charge is made for these services.

8. Investment income

	2023 £'m	2022 £'m
Dividends from equities	29.4	74.3
Income from bonds	117.8	146.6
Net income from property*	29.4	39.1
Income from pooled investment vehicles	92.7	74.2
Income/(Expense) from derivatives	41.3	(16.9)
Interest on cash deposits	67.5	0.7
Other (Expense)/Income	(0.5)	1.8
Income from stock lending	0.8	1.7
Expense on repurchase agreements	(17.9)	(9.1)
	360.5	312.4

* Income from property is the net of £39.2m (2022: £48.1m) income received from tenants, less £9.8m (2022: £9.0m) of expenses, which are directly attributable to specific properties.

9. Reconciliation of investments

	Value at 1 April 2022 £'m	Purchases at cost and derivative payments £'m	Sales proceeds and derivative receipts £'m	Change in market value £'m	Value at 31 March 2023 £'m
Equities	4,357.8	408.6	(4,596.5)	(169.3)	0.6
Bonds	12,838.6	7,008.5	(9,233.8)	(3,694.0)	6,919.3
Property	882.9	58.1	(175.7)	(220.5)	544.8
Pooled investment vehicles	5,691.6	2,001.3	(2,586.1)	(192.2)	4,914.6
Derivatives	(345.3)	2,874.1	(738.0)	(3,791.1)	(2,000.3)
AVC investments	45.8	-	(3.3)	(1.7)	40.8
	23,471.4	12,350.6	(17,333.4)	(8,068.8)	10,419.8
Cash and cash equivalents	1,176.9			8.3	2,589.8
Other investment balances	(3,593.0)			(0.4)	(139.3)
	21,055.3			(8,060.9)	12,870.3

Further details of other investment balances are detailed in note 19. Interportfolio transfers are included in purchases/sales respectively.

Transaction costs

Direct transaction costs are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs include costs charged to the Scheme such as fees, commissions and stamp duty.

Direct transaction costs analysed by main asset class and type of cost are as follows:

	2023		2023	2022
	Fees £'m	Commission £'m	Total £'m	Total £'m
Equities	(0.7)	(0.5)	(1.2)	(3.4)
Property	(0.0)	-	(0.0)	(0.6)
Total 2023	<u>(0.7)</u>	<u>(0.5)</u>	<u>(1.2)</u>	<u>(4.0)</u>
Total 2022	<u>(2.1)</u>	<u>(1.9)</u>		

In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles. These costs are not separately reported.

10. Investment management expenses

Administration, management and custody
(Including in house investment management costs)

2023
£'m

(57.9)

2022
£'m

(53.0)

11. Taxation

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

12. Property

UK direct property - freehold

UK direct property - leasehold

2023
£'m

364.4

180.4

544.8

2022
£'m

665.2

217.7

882.9

For properties owned and rented to tenants, the Scheme is obligated to maintain and repair these under lease agreements.

13. Pooled investment vehicles

The Scheme's investments in pooled investment vehicles at the year-end comprised:

	2023 £'m	2022 £'m
Indirect Property	1,004.9	1,234.7
Private equity	2,820.7	3,341.9
Equity	1,029.3	719.3
Hedge funds	59.7	395.7
	4,914.6	5,691.6

Included in Indirect property pooled funds are:

- An investment in Adelphi Global Real Estate Fund in which the Scheme is the sole investor. As at the Scheme year-end date, the net assets of this fund were £48.3m (2022: £51.9m) of which £50.2m is property investments and £0.1m is cash and cash equivalents, and the liabilities were £0.1m (2022: £0.1m).
- An investment in IOGP Limited Partnership in which the Scheme is the sole investor. As at the Scheme year-end date, the net assets of this fund were £72.5m (2022: £82.5m) of which £92m is property investments and £2.1m is cash and cash equivalents, and the liabilities were £24.6m (2022: £24.6m).
- Investments in Projects Gold and Jade valued at £242.0m (2022: £249.9m). For further details, see note 22.

For properties which are held indirectly through pooled funds, the obligation to maintain and repair these rests with the entity the Scheme invests in.

Included in Private Equity pooled funds are –

- An investment in Dalmore Infrastructure Investments 33 L.P. in which the Scheme is the sole investor. As at Scheme year-end date, the net assets of this fund were £68.6m (31 March 2022: £65.1m).
- An investment in CRC Single Investor Fund XIV, Ltd. in which the Scheme is the sole investor. As at Scheme year-end date, the net assets of this fund were £172.1m (31 March 2022: £135.8m).
- An investment in Napier Park Jayco Opportunistic Credit Fund Ltd. in which the Scheme is the sole investor. As at Scheme year-end date, the net assets of this fund were £78.8m (31 March 2022: £108.9m).
- An investment in Arjun Alliance UK 2, L.P. in which the Scheme is the sole investor. As at Scheme year-end date, the net assets of this fund were £121.2m (31 March 2022: £122.3m).
- An investment in Equitix MA 18 L.P. in which the Scheme is the sole investor. As at Scheme year-end date, the net assets of this fund were £64.3m (31 March 2022: £60.2m).
- An investment in ICG Longbow Senior No.3 L.P. in which the Scheme is the sole investor. As at Scheme year-end date, the net assets of this fund were £74.2m (31 March 2022: £38.6m).
- An investment in PSC Credit (T) SCSp in which the Scheme is the sole investor. As at Scheme year-end date, the net assets of this fund were £87.9m (31 March 2022: £72.0m).
- An investment in Stafford Infrastructure SMA 1 L.P. in which the Scheme is the sole investor. As at Scheme year-end date, the net assets of this fund were £28.5m (31 March 2022: £15.2m).
- An investment in Hayfin Direct Lending Fund IV GBP Feeder SCSp in which the Scheme is the sole investor. As at Scheme year-end date, the net assets of this fund were £57.7m (31 March 2022: £20.6m).
- An investment in Target Healthcare Partners Limited Partnership in which the Scheme is the sole investor. As at Scheme year-end date, the net assets of this fund were £69.8m (31 March 2022: £0.0m).

Further, there are no investments held which are over 5% of the net assets.



14. Derivatives

Objectives and policies

The Trustee has authorised the use of derivatives by the investment managers in accordance with the investment guidelines for each mandate. Investment in derivative instruments is only permitted for the purposes of:

- (a) Contributing to a reduction of risks; and
- (b) Facilitating efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk).

Processes and controls are in place to ensure risk exposures to a single counterparty and to other derivative operations are maintained within acceptable levels. Further details are available in note 21.

The main objectives for the use of derivatives are summarised as follows:

- (i) Protection derivatives may be used as part of the permitted instrument types available to managers to protect (or enhance) active returns relative to the specified strategic benchmarks, for example, through the use of options and credit default swaps.
- (ii) To modify exposure to asset classes, derivatives are bought or sold to allow the Scheme to change its exposure to a particular market or asset class more quickly than by holding the underlying physical assets. They may also be easier to trade than conventional stocks, particularly in large amounts.
- (iii) Hedging forward currency contracts are used to partially hedge the currency risk relating to overseas investments. This aims to achieve a better match between the fund's assets and the base currency of its future liabilities. Derivatives may also be used for the purpose of hedging risk exposures affecting future Scheme liabilities, for example, through the use of inflation and interest rate swaps.
- (iv) Replication derivatives are used where liquidity or funding for generating a relevant investment exposure is perceived to be more efficient in derivatives, rather than the underlying physical assets.

14. Derivatives (continued)

At the year-end, the Scheme had the following derivatives:

	31 March 2023 Assets £'m	31 March 2023 Liabilities £'m	31 March 2022 Assets £'m	31 March 2022 Liabilities £'m
Futures	5.9	(2.6)	3.9	(6.0)
Swaps	486.0	(2,539.5)	593.8	(881.1)
Forward FX contracts	51.1	(2.1)	56.3	(112.8)
Options	0.9	(0.0)	1.7	(1.1)
	543.9	(2,544.2)	655.7	(1001.0)

Futures

The Scheme had outstanding exchange traded futures at the year-end as follows:

Nature	Economic exposure £'m	Expires	Asset value £'m	Liability value £'m
UK Fixed Income Futures	-	Less than 3 months	-	-
Overseas Fixed Income Futures	(23.0)	Less than 3 months	-	(0.5)
UK Equity Futures	-	Less than 3 months	-	-
Overseas Equity Futures	47.7	Less than 3 months	5.9	(2.1)
Total 2023	24.7		5.9	(2.6)
Total 2022	(34.4)		3.9	(6.0)

Swaps

The Scheme had outstanding over the counter ("OTC") derivative swap contracts at the year-end as follows:

Nature	Notional amounts £'m	Expires	Asset value £'m	Liability value £'m
Interest Rate Swaps	5,002.4	Up to 20 years & above 20 years	15.8	(1,042.1)
Equity Index Swaps	-	1-5 years	-	-
Inflation Swaps	2,771.6	Up to 20 years & above 20 years	469.8	(46.4)
Other Swaps	3,883.0	0-5 years	0.4	(1,451.0)
Total 2023	11,657.0		486.0	(2,539.5)
Total 2022	13,654.2		593.8	(881.1)

As at 31 March 2023, the counterparty held collateral of £1,967.0m (2022: £490.6m) in the form of cash and bonds in respect of swaps.

14. Derivatives (continued)

Forward FX contracts

The Scheme had open forward foreign exchange contracts at the year-end as follows:

Settlement date	Currency bought		Currency sold		Asset value £'m	Liability value £'m
	Currency	m	Currency	m		
0-1 Months	USD	126.9	EUR	(116.2)	0.5	-
0-1 Months	USD	26.0	GBP	(21.0)	0.1	-
0-1 Months	USD	8.5	JPY	(1,100.0)	0.2	-
1-6 Months	USD	12.2	OTHER	(230.0)	-	(0.2)
0-1 Months	GBP	224.9	EUR	(254.5)	4.2	(0.0)
1-6 Months	GBP	385.4	EUR	(434.1)	-	(0.0)
0-1 Months	GBP	1,214.5	USD	(1,482.6)	45.2	(0.2)
1-6 Months	GBP	1,311.1	USD	(1,586.6)	-	-
0-1 Months	EUR	2.0	GBP	(1.8)	-	(0.0)
1-6 Months	EUR	14.5	USD	(15.6)	0.1	-
0-1 Months	EUR	37.6	OTHER	(37.0)	0.3	-
0-1 Months	JPY	6,300.0	USD	(49.0)	-	(1.3)
0-1 Months	OTHER	37.0	EUR	(37.7)	-	(0.4)
0-1 Months	OTHER	0.1	USD	(0.0)	-	-
1-6 Months	OTHER	230.0	USD	(11.9)	0.5	-
Total 2023					51.1	(2.1)
Total 2022					56.3	(112.8)

Other currencies include AUD, BRL, CAD, CHF, CNY, INR, MXN, NOK, PLN, SEK, SGD, TWD, ZAR.

Options

The Scheme had outstanding options as at 31 March 2023 as follows:

Nature	Expires	Asset value £'m	Liability value £'m
Put Options Equity - Overseas	1-3 months	0.9	(0.0)
Total 31 March 2023		0.9	(0.0)
Total 31 March 2022		1.7	(1.1)

15. Stock lending

The stock lending programme lends certain equity and bond investments. At 31 March 2023, the value of listed equity on loan was £2.0K (2022: £174.7m), bonds of £104.8m (2022: £177.8m) in exchange for which the Scheme held collateral of £139.9m (2022: £852m). The collateral consists of £48.6m Equities and £91.3m US and European government bonds.

16. AVC investments

	2023 £'m	2022 £'m
AVC investments – UK	40.8	45.8

The Trustee hold assets invested separately from the main Defined Benefit Section investments to secure additional benefits on a money purchase basis for those Defined Benefit Section members electing to pay Additional Voluntary Contributions.

AVC investments are held in the following funds at the discretion of the Scheme members:

- Prudential Deposit Fund
- Standard Life Index-Linked Bond Pension Fund
- Standard Life Managed Fund
- Standard Life BlackRock managed HP 50:50 Global Equity Pension Fund
- Standard Life Lifestyle Option
- Standard Life Pension Millennium with Profits Fund

All Scheme members contributing AVCs receive an annual statement of their AVC investment holdings as at 30 June.

17. Subsidiary companies and other interests

The names of the subsidiary undertakings of the Scheme are shown below together with the percentage of equity capital held by the Scheme, the year-end date of the companies and their activities:

Name of company and country of registration	Percentage of equity capital held directly	Year-end date
TPT Holdco No 1 Limited	100%	26 February
TPI Fund Managers Limited	100%	31 March
Tesco Pension Investment Limited	100%	31 March
Waterside General Partner Limited	100%	31 March

Waterside Lincoln Limited Partnership was dissolved on 31 January 2023.

The principal activity of TPT Holdco No 1 Limited is to act as a holding company for assets held in Tesco Navona Limited Partnership, Tesco Passaic Limited Partnership and Tesco Blue Limited Partnership, collectively Project Gold.

The principal activity of TPI Fund Managers Limited is to act as the investment manager to the Tesco Authorised Contractual Scheme.

The principal activity of Tesco Pension Investment Limited is to act as investment manager for the Scheme.

The principal activities of Waterside General Partner Limited are the management and lettings of the Waterside Shopping Centre in Lincoln which is included as a direct property investment.

18. Cash

	2023 £'m	2022 £'m
Cash assets		
Pound Sterling	484.1	434.6
Foreign currency	2,105.7	742.3
	<u>2,589.8</u>	<u>1,176.9</u>



19. Other investment balances

	2023 £'m	2022 £'m
Other investment balances assets		
Amounts due from brokers	30.2	146.7
Accrued income	35.1	51.9
Reverse repurchase agreements	216.4	481.3
	281.7	679.9
Other investment balances liabilities		
Subsidiary companies net liability	(7.2)	(7.9)
Amounts due to brokers	(51.8)	(13.3)
Repurchase agreements	(362.0)	(4,251.7)
	(421.0)	(4,272.9)
	(139.3)	(3,593.0)

As at 31 March 2023, the counterparty held collateral of £115.5m (2022: £221.4m) in the form of cash and bonds in respect of repurchase agreements.

20. Fair value determination

The fair value of financial instruments has been estimated using the following fair value hierarchy:

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

At 31 March 2023			
	Level 1 £'m	Level 2 £'m	Level 3 £'m
Total £'m			
Equities	0.6	-	-
Bonds	-	6,919.3	-
Property	-	-	544.8
Pooled investment vehicles	-	1,089.0	3,825.6
Derivatives	-	(2,000.3)	-
Other investments	6.3	-	-
AVC investments	-	-	40.8
Cash and cash equivalents	141.4	2,448.4	-
Repurchase agreements*	-	-	-
	148.3	8,456.4	4,411.2
			12,870.3

*Repurchase agreement holdings are not deemed to fall into levels 1, 2 or 3.

Property asset valuations are prepared in accordance with RICS.

Pooled investment vehicles which are traded regularly are generally included in level 2. Pooled investment vehicles which contain unquoted assets such as private equity, infrastructure and private credit are valued with reference to International Private Equity and Venture Capital valuation guidelines (IPEV).

The current, ongoing economic uncertainty brought about by the coronavirus pandemic means that asset valuation techniques that rely on unobservable inputs are less certain at a time when market transactional activity is lower than normal. Level 3 assets are valued in line with industry standard guidelines and examples include the RICS methodology for property and the IPEV guidelines for Private Equity. At 31 March 2023, direct and pooled property was valued at £1,549.7m (2022 : £2,117.6m). A 10% movement in value would equate to £154.9 m (2022 : £211.7m).

At 31 March 2022			
	Level 1 £'m	Level 2 £'m	Level 3 £'m
Total £'m			
Equities	4,357.8	-	-
Bonds	-	12,838.6	-
Property	-	-	882.9
Pooled investment vehicles	-	1,115.0	4,576.6
Derivatives	-	(345.3)	-
Other investments	177.4	-	-
AVC investments	-	-	45.8
Cash and cash equivalents	193.6	983.3	-
Repurchase agreements*	-	-	-
	4,728.8	14,591.6	5,505.3
			21,055.3

*Repurchase agreement holdings are not deemed to fall into levels 1, 2 or 3.

21. Investment risk disclosures

Investment risks:

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.

Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.

Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determines its investment strategy after taking advice from professional investment advisors. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.

Further information on the Trustee's approach to risk management, credit and market risk is set out below. This does not include the legacy insurance policies nor AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

Investment objective

The investment objective is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits of the Scheme payable under the trust deed and rules as they fall due.

The Trustee sets the investment strategy for the Scheme taking into account considerations such as the strength of the employer covenant, the long-term liabilities of the Scheme and the funding agreed with the Employer.

Credit risk

The Scheme is subject to credit risk because the Scheme directly invests in bonds, over-the-counter ("OTC") derivatives, has cash balances, undertakes stock lending activities and enters into repurchase agreements. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles. The Scheme is also indirectly exposed to credit risks arising on some of the financial instruments held by the pooled investment vehicles.

The notes below outline how the risk is managed, mitigated and quantified.

Bonds: The risk is of borrower default. This is mitigated by investing predominantly in investment grade bonds and on a diversified basis. Investment grade bonds, are those rated at BBB- or higher by Standard & Poor's or Fitch, or rated at Baa3 or higher by Moody's.

OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC swaps and forward foreign currency contracts is reduced by collateral arrangements (see note 14). All counterparties are required to be at least investment grade.

The Trustee manages the credit risk arising from stock lending activities by restricting the amount of overall stock that may be lent, limiting the amount that can be lent to any one borrower and putting in place collateral arrangements (see note 15).

Repurchase agreements: The primary risk is of counterparty default, which is mitigated by collateralisation and daily margin management. The risk is limited to the outstanding daily margin and daily collateral movement. (See note 19).

Property: The primary risk is of tenant default. This is mitigated by careful selection and diversification of tenants within the portfolio. Rent is also payable by tenants in advance.

Pooled Investment Vehicles: Risks are defaults within a single portfolio which are mitigated by diversification of funds and of fund manager default, which is mitigated through the use of legal structures.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the operating environment of the pooled manager.

21. Investment risk disclosures (continued)

The Scheme is indirectly exposed to credit risks arising on the underlying investments held by pooled investment vehicles. These include Bonds, Hedge Funds, Private Equity and Property as reflected in note 13. The Trustee manages credit risk within these assets through diversification of the underlying securities to minimise the impact of default by any one issuer.

Indirect credit risk arises in relation to underlying investments in Project Gold whereby the Scheme is

exposed to Tesco PLC defaulting on its rental payments to the underlying bond holders of the structure. The Trustee has considered and accepted this risk and monitors the structure's performance. The Scheme has further indirect credit risk to property through pooled investment vehicles. This risk is mitigated through the diversification of funds and fund managers.

Cash: The primary risk is of counterparty default. This is mitigated by investing in only the highest rated funds.

Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments (direct exposure) or via pooled investment vehicles (indirect exposure).

The net currency exposure at the current and previous year-end was:

	2023 Direct exposure £'m	2023 Indirect exposure £'m	2022 Direct exposure £'m	2022 Indirect exposure £'m
Pounds sterling (GBP)	10,674.0	2,009.8	15,164.8	1,792.5
Euros (EUR)	(445.9)	524.6	(151.0)	443.0
US dollars (USD)	(1,842.2)	1,819.0	751.0	2,671.4
Japanese Yen (JPY)	31.8	-	258.7	-
Other currencies	14.0	85.2	5.8	119.1
Total	8,431.7	4,438.6	16,029.3	5,026.0

This risk is mitigated through Exchange hedging, for further information please refer to Note 14.

Interest rate risk

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in bonds, bond futures, derivatives (e.g. Interest rate swaps), and cash. The Scheme's exposure to interest rate risk is held in asset allocation, the bond portfolio, alternative assets and the hedge sub-portfolio. If interest rates fall, the value of those investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the hedge sub portfolio investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate.

Other price risk

Other price risk arises principally in relation to the Scheme's return-seeking portfolio which includes equities, equities held in pooled vehicles, equity futures, alternative assets and investment properties. Risk is mitigated through diversity by investment in varying geographical locations and sectors.

22. Employer related investments

The Scheme is permitted to hold equity and debt securities issued by Tesco PLC and property leased to Tesco PLC, subject to the total proportion not exceeding 5% of the current market value of the Scheme's assets. At 31 March 2023, the Scheme had the following exposure:

Employer related investment	2023 £'m	2022 £'m
Tesco Jade Unit Trust and Tesco Jade (GP Limited)	77.2	88.4
Tesco Blue Limited Partnership (Gold I)	33.5	32.5
Tesco Passaic Limited Partnership (Gold III)	86.0	83.6
Tesco Navona Limited Partnership (Gold IV)	45.4	45.4
BlackRock UK Property Fund	0.8	1.0
Threadneedle Property Unit Trust	0.0	0.3
Lothbury Property Trust	0.0	3.8
IPIF	1.2	1.6
Total	244.1	256.6

The total percentage of employer related investments as at 31 March 2023 was 1.92 % (2022: 1.23%) of the Scheme's assets.

The lowest percentage of employer related investments during the financial year was as at 30 June 2022 when the value was £259.0m. This was 1.58% (2022: 1.09%) of the Scheme's assets.

The highest percentage of employer related investments during the financial year was at 31 December 2022 when the value was £238.7m. This was 1.93% (2022: 1.23%) of the Scheme's assets.

23. Current assets

	2023 £'m	2022 £'m
Other debtors	20.4	28.9
Cash balances	28.9	37.8
VAT receivable	-	2.9
	49.3	69.6

24. Current liabilities

	2023 £'m	2022 £'m
Unpaid benefits	(0.5)	(1.9)
Other creditors	(12.0)	(13.0)
Amounts due to Tesco Stores Limited*	(20.8)	(38.6)
VAT payable	(1.0)	-
	(34.3)	(53.5)

*Tesco Stores Limited provides a service to the Scheme of paying the pensioner payroll; the Scheme then reimburses Tesco Stores Limited.

25. Related party transactions

Tesco Stores Limited has paid fees of £329k on behalf of the Scheme to the Directors of the Trustee Company for the period 1 April 2022 to 31 March 2023 (31 March 2022: £295k).

One former Director of the Trustee Company, Mr R Ager, is a pensioner and receives a pension in line with the Scheme rules. All the directors of the Trustee Company, apart from Law Debenture (represented by Ms Winterfrost) are deferred members of the Scheme.

The Scheme held equity and debt securities issued by Tesco Plc and property leased to Tesco Plc during the year (refer to note 22 for details). The Scheme received contributions of £21.3m (2022: £25m) from the sponsoring employers during the year.

Tesco Pension Investment Limited is a wholly owned subsidiary of the Scheme, which provides investment management services to the Scheme for which the Scheme paid £36.0 m (2022: £35.0m).

Tesco Stores Ltd provides administration services to the Scheme; no charge is made for these services. As disclosed in note 24, Tesco Stores Ltd provides a service to the Scheme of paying the Pensioner Payroll; the Scheme then reimburses Tesco Stores Ltd.

26. GMP equalisation

On 26 October 2018 the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes.

The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits.

The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Trustee of the Scheme is aware that the issue will affect the Scheme and has actively been considering its implications, including setting up a dedicated GMP working party which reports to the Trustee and its sub-committees.

On 20 November 2020, the High Court handed down a further judgement confirming that schemes which provide GMPs need to revisit and where necessary top up historic Cash Equivalent Transfer Values that were calculated based on unequalised benefits. Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the Financial Statements and therefore have not included a liability in respect of these matters in these Financial Statements. They will be accounted for in the year they are determined.

27. Contingent liabilities and contractual commitments

The Scheme has no other contingent liabilities at 31 March 2023 (2022 – Nil).

On 31 March 2023, the Scheme had the following unfunded commitments to private equity and real estate funds:

Particulars	Private Equity £'m	Infrastructure £'m	Credit £'m	Real Assets £'m	Direct & Indirect Property £'m	Reinsurance £'m	Total unfunded commitments £'m
31 March 2023	144	214	565	4	275	-	1,202
31 March 2022	389	248	966	10	383	-	1,996

28. Subsequent events

There were no subsequent events.



Engagement and Voting Policy Implementation Statement for the year ending 31 March 2023

How we're meeting our commitment to Responsible Investment

Tesco Pension Trustees Ltd.



The money in the Tesco PLC Pension Scheme is invested

We invest the Scheme's money to get the returns we need to pay pensions and other benefits to our members.

It's important that we invest the Scheme's money responsibly. When we invest, we consider all the financial opportunities and risks that influence the value of our investments. These are commonly known as ESG, as they include:



Environmental factors, such as climate change and pollution



Social factors, such as human rights, company practices and modern slavery



Governance and the proper running of businesses by their board of directors

We can influence the companies we invest in

When we invest the Scheme's money in a company, we do so by buying shares in that company or by purchasing the debt issued by that company. We also invest some of the Scheme's money in other investments, such as property. With all of our investments, we understand the importance of working with the companies we invest in, to influence their performance, strategy, and approach to risk management, as well as to promote best practice on topics such as ESG and corporate governance. This also applies to the investment managers who select these investments for us. As part of this, the Trustee and its sub-committees engage with the Scheme's main investment manager, Tesco Pension Investment Limited (TPI), and TPI engages with the external managers on the Trustee's behalf. Some examples of this are included in this Statement.

Where we invest in shares, this gives our investment managers the right to vote at Annual General Meetings (AGMs) and Extraordinary General Meetings (EGMs) on our behalf. They vote on the way these companies are run, discuss key issues with their senior management, and encourage them to adopt good practices and policies.

This is important, because investments in companies with good practices and policies tend to perform better in the long run. As shareholders, we can use our say and our votes to help make the companies we invest in more sustainable, so they're more likely to generate better returns.

We carefully consider the investments we make, and encourage our investment managers to support financially sustainable businesses, to generate the returns we need - in a cleaner, healthier, global environment. As part of this, we've agreed some Stewardship* priorities (covered in more detail on pages 3-4). We've informed TPI and our other significant investment managers about these priorities and we continue to monitor their approach to Stewardship.

There is more information below on how we cast votes and how we engage with TPI and various other parties.

* the responsible allocation, management and oversight of investments, leading to sustainable benefits for the economy, the environment and society

This statement explains how we've voted

We've produced this annual implementation statement for the year to 31 March 2023 to describe:

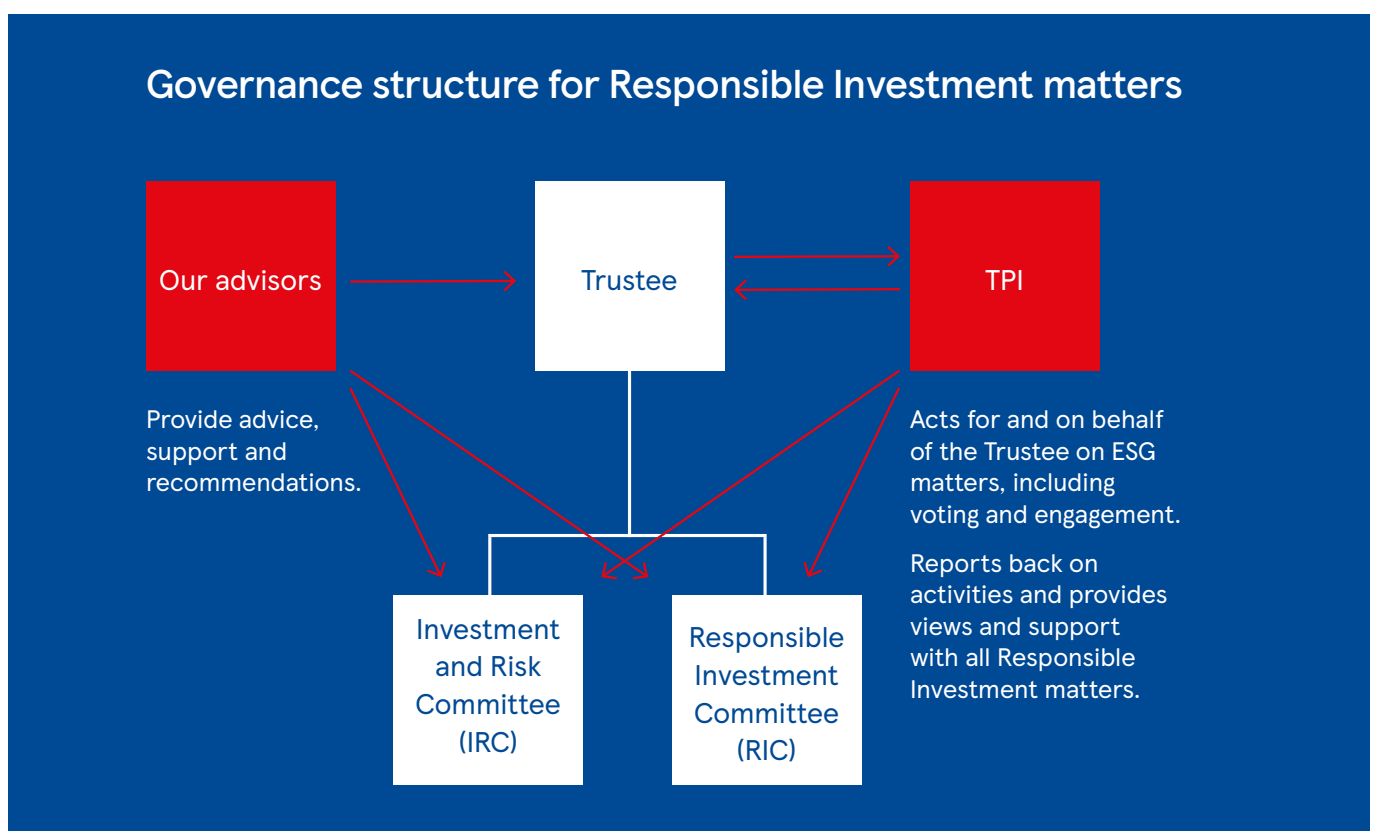
Our governance procedures, including those on responsible investment and climate change

The voting during the year, by and on behalf of the Trustee, relating to the companies in which we are shareholders

How we followed the policies in our Statement of Investment Principles (SIP) when **voting** (in the case of company shares) and **engaging** (with the companies we invest in)

How our Investment and Risk Committee (IRC) and our Responsible Investment Committee (RIC) have been supporting us

The Trustee's Investment and Risk Committee (IRC) meets regularly, to provide detailed oversight of the Scheme's investment strategy. Having considered advice, the IRC then makes recommendations on our strategy to the Trustee, and also manages, monitors, and implements the Scheme's investment arrangements. The Responsible Investment Committee (RIC) also meets regularly and, having considered advice, makes recommendations to the Trustee and to the IRC, to help us consider Responsible Investment (RI) and ESG matters appropriately.





What we've done

1. Led by the RIC, we've continued to develop our approach to Responsible Investment (RI)

We've run training sessions to build on and further increase the Trustee's knowledge and understanding of RI and ESG matters. As well as climate-related metrics and targets, the training sessions have also focused on Social (the "S" in ESG) and Governance (the "G") factors. The training helped us choose Stewardship priorities for the Scheme, which we use to push the key areas that we expect TPI to focus on, both in their investment activities and, where appropriate, in their interactions with external managers.

We've continued to develop our policies and our approach around responsible investment, and have devoted appropriate levels of time and resources to this area, given its importance. We've reviewed and updated our RI policy, including some changes to our investment beliefs, reference to our participation in various investor initiatives, and setting out more information about our expectations of TPI and external managers, and how our RI policy applies to their activities. We've also added our Stewardship priorities, which are set out below.

Since 31 March 2023, our RI policy has developed to include additional Stewardship priorities and more detail on how the Trustee implements its Stewardship approach and monitors TPI's and external managers' practices. This includes an agreed approach to the escalation of issues related to external managers. When reviewing the policy, the RIC considered TPI's Stewardship approach, to make sure it's consistent with the Trustee's policies and expectations.

We have a separate RI policy, as we believe responsible investment is an important area that warrants specific attention. You can read the full policy [here](#), and read more about the policy in our [Statement of Investment Principles \(SIP\)](#).

2. We've set out our key Stewardship priorities

The RIC considered Stewardship priorities, to focus both monitoring and engagement on specific ESG factors. These priorities were then considered and approved by the full Trustee board. We monitor the activity of our investment managers in these areas to make sure they meet our expectations.

The agreed priorities are:

- **Climate change.** This was selected as the Trustee recognises that climate change is a material financial risk to the Scheme, which is likely to influence the risk and return of the Scheme's investments over the short and the long term. The Trustee considers Stewardship to be an important tool to support progress towards its aim to achieve net-zero carbon emissions by no later than 2050. More detail on the Trustee's work in this area is set out over the next few pages.
- **Social issues, including human rights, diversity and inclusion.** This was selected as the Trustee recognises social issues as important and financially material considerations for the Scheme. The RIC undertook training on social issues and the "*Just Transition*" (ie exploring how we transition to net-zero in a way that doesn't leave people – including workers and communities – behind). The Trustee continues to consider the use of specific social initiatives to enhance its Stewardship action in this area.
- **Governance issues, including business ethics and corporate transparency.** This was selected as the Trustee recognises these areas as financially material for the Scheme, and important in ensuring positive, broader ESG performance. The RIC received training on this during the Scheme Year.



- **Biodiversity loss.** The loss of biodiversity (the variety of animals, plants, fungi, and micro-organisms like bacteria that make up our natural world) was selected, as the Trustee recognises that this presents a material financial risk to the Scheme, which could have an impact on the risk and return of the Scheme's investments. The Trustee is considering how it will improve its approach to Stewardship in this area, and the RIC received training on this after the end of the Scheme Year. The Trustee also recognises that biodiversity loss presents a significant risk to the global economy.

The specific areas of **Governance issues** (business ethics and corporate transparency) and **Biodiversity loss** were added as Stewardship priorities after the end of the Scheme Year. The Trustee continues to identify areas it believes will be appropriate to prioritise in the future.

The Trustee has focused on the above areas as priorities over the year. The Trustee believes that the risk and return of the Scheme's investments can be improved, by engagement with the companies in which we invest, and with other external parties where appropriate. The Trustee's Stewardship priorities are consistent with the Trustee's investment beliefs, and are financially material risks to the Scheme. The Trustee believes that focusing on Stewardship in these areas is in the best financial interests of the Scheme and its beneficiaries.

3. To meet our TCFD requirements, we published our first Climate Report

The RIC has focused on identifying, assessing, monitoring, and managing climate-related risks and opportunities for the Scheme, and has been working on our reporting requirements, which are based on the [Task Force on Climate-Related Financial Disclosures \(TCFD\)](#).

In June 2021, we committed to aim for the Scheme's portfolio of assets to have Net-Zero carbon emissions by no later than 2050 and, during the year, we've reviewed our progress

against our interim targets. The Trustee is a participant of the [Institutional Investors Group on Climate Change \(IIGCC\)](#) and a signatory to the Paris Aligned Investment Initiative Net-Zero Asset Owner Commitment.

More information on this is contained in our [first Climate Change Report](#), which summarises the work we've done, including setting and measuring various climate-related metrics and targets for the Scheme. Our [second Climate Change Report](#) includes further developments and progress against our climate-related targets. You can access both Climate Change Reports [here](#).

4. We continue to take an active approach to Stewardship and engagement

Stewardship is the responsible allocation, management, and oversight of investments, to create long-term value for beneficiaries, leading to sustainable benefits for the economy, the environment and society.

Our approach to Stewardship is based on active ownership, including engaging with the companies we're invested in, exercising voting rights, and working with others to support policies that promote the creation of long-term value.

The Trustee and TPI became joint signatories to the UK Stewardship Code in March 2022, which helped demonstrate the Trustee's commitment to being a responsible steward of its assets. In February 2023, we decided to remain joint signatories for a second year. You can access both Stewardship reports [here](#).

During the year, the Trustee reviewed feedback received from the Financial Reporting Council, to consider how to further improve the Trustee's and TPI's Stewardship practices.

The Trustee receives regular reports from TPI on its engagement activities, voting record, and its discussions with companies and senior management across a range of investments including equities, corporate bonds, and direct

Case Study: Fixed Income – Engagement with an energy utilities company

What was the issue?

TPI engaged with its highest-emitting companies during 2022, focusing on an Italian utilities company, as it makes up a substantial contribution of the emissions associated with the fixed income portfolio.

What actions did TPI take?

TPI met with the company's management during an ESG Summit, specifically to discuss the company's climate targets and transition pathway. As a leader in **sustainability-linked bonds (SLBs)**, the company is focused on driving all its business units towards Net-Zero, and uses these bonds as a tool to enable progress against its interim goals. TPI challenged the company's commitment to meeting its climate goals in the middle of an energy crisis.

TPI was concerned that the conflict in Ukraine could cause the company to fail to meet its Sustainability Performance Target (SPTs), including its interim climate ambitions, and to reduce its capital expenditure on renewable energy.

What was the outcome?

The company's management confirmed that it remained committed to its climate strategy, and to the alignment of its future capital expenditure to Net-Zero by 2040. The company also confirmed its desire to issue more SLBs, stating that they provide a good incentive for the company to stick to its commitments and stay on target. The company's management also suggested that it would consider adding **scope 3 emissions** (emissions not produced or controlled by the company, but which the company is indirectly responsible for) to any future issue of SLBs. TPI reminded the company that any financial penalties should be large enough to encourage the company not to fail in its climate-related ambitions.

What are the next steps?

TPI will continue to invest in the company over the medium-to-long term. TPI will also continue to use its position as a debt-holder, to engage with the company in the hope that it delivers on its commitments.

property. An example of the engagement activity carried out within the fixed income portfolio during the year is set out in the above case study.

More detail on our Stewardship policies, including how we monitor and engage with relevant parties, can be found in our [Responsible Investment policy](#).

5. We continue to support various other investor groups

The Trustee is an asset owner supporter of Climate Action 100+, the largest group of investors in the world to engage with companies on climate change. We are also a signatory to [Make My Money Matter's Green Pensions Charter](#) and a signatory to the 2021 Global Investor Statement to Governments on the Climate Crisis. We also take part in other industry groups, including the IIGCC and the [Occupational Pensions Stewardship Council \(OPSC\)](#), and we work with pension industry peers.

6. TPI continues to work hard

We've delegated the job of managing the Scheme's investments to TPI, which directly looks after some of the Scheme's investments and appoints external investment managers to manage the rest.

TPI has continued to invest a significant amount of time and resource in developing its knowledge and capabilities around RI and ESG, to help us carry out our responsibilities

as Trustee. Over the year, both the RIC and the Trustee received regular reporting from TPI on the Stewardship activities it has carried out on the Trustee's behalf.

As well as managing the Scheme's investments, TPI engages with various investor groups and takes part in public policy campaigns. For example, on behalf of the Trustee, TPI is a signatory to the CDP (formerly the Carbon Disclosure Project), supporting its annual non-disclosure campaigns and its Science-Based Targets campaign. TPI is a supporter of Climate Action 100+, and a member of the IIGCC. TPI also takes part in working groups, including the Property Working Group and "Net-Zero surgeries" where investors work together to consider how to implement the Net-Zero commitment. TPI continues to take part in and support the [UK Centre for Greening Finance and Investment \(CGFI\)](#).

TPI also supports and takes part in the OPSC, including co-steering a group on Private Markets.

There are some examples in this document of how TPI engaged with some of the companies we're invested in, on the Trustee's behalf. In general, effective engagement goes much further than just using voting rights. An initial vote is just the first step when it comes to engaging and influencing on an issue. As well as providing more detail on the issues we've engaged on, we've also included details of the lessons learned from our voting and engagement activities (see page 11), as well as insights in how effective voting and engagement has been in achieving their aims.

7. We reviewed our Statement of Investment Principles (SIP) and updated it once our revised investment strategy was agreed.

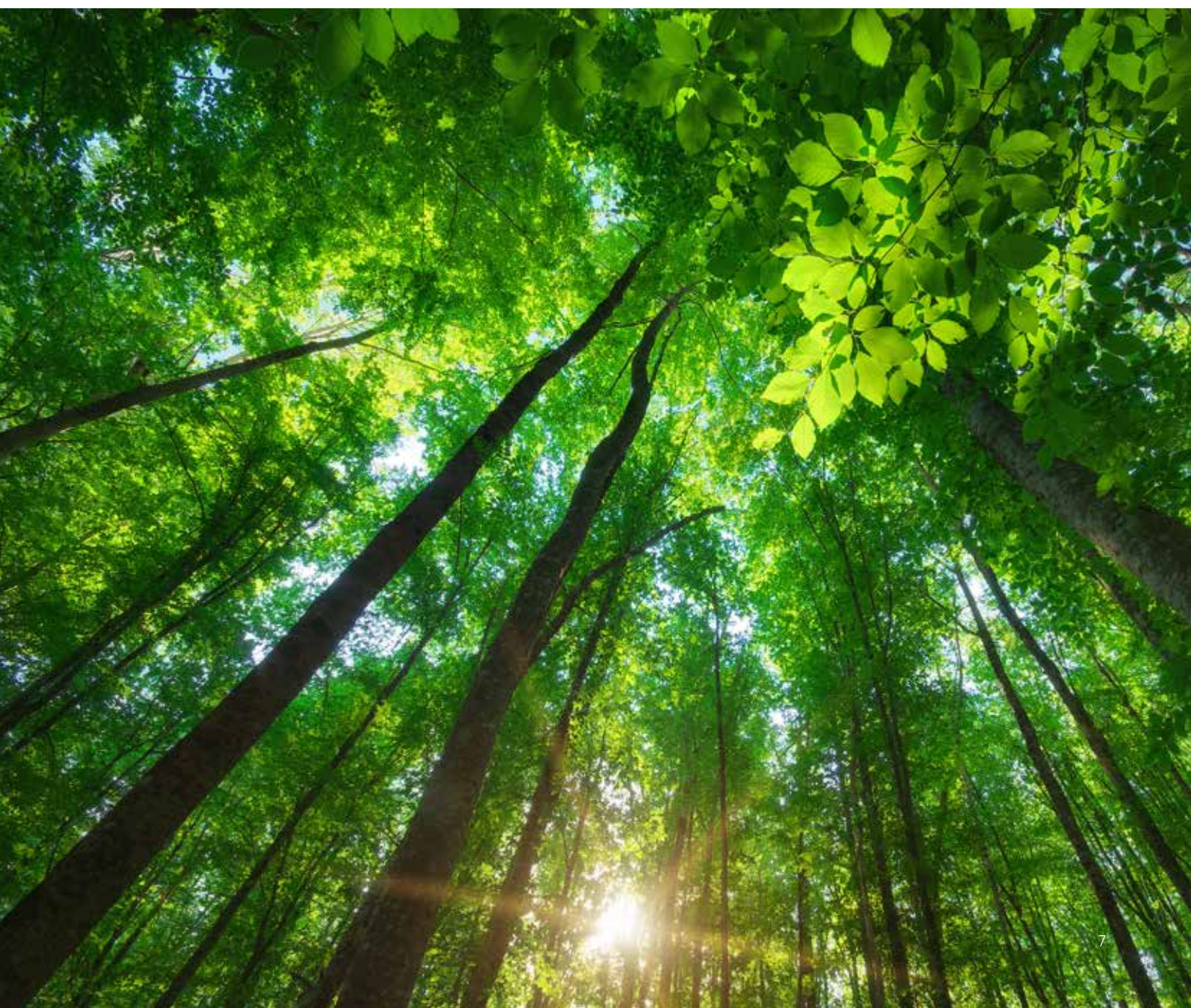
Our SIP summarises the principles and policies for how we invest. During the year we reviewed our SIP, but decided not to make changes until the Scheme's revised investment strategy had been agreed. The Trustee updated the SIP after the end of the year, to account for changes to the investment strategy (see below). We'll report on this in our next Statement.

The Trustee has, in its opinion, followed the policies in the SIP. In this Statement, we provide detail and commentary about how we've done this. Progress against the Scheme's long-term plan was regularly reviewed as part of the quarterly monitoring received by the IRC and the Trustee. Risks for the Scheme were also monitored regularly, and we carried out a detailed review of those risks.

8. We made the following changes to the Scheme's investment strategy:

- During the year, we took the opportunity to reduce the level of investment risk across the Scheme. As part of this process, we had sold our direct equity holdings by September 2022. We then appointed [Legal & General Investment Management \(LGIM\)](#) in December 2022, to run a passive, low-carbon equity portfolio, which was chosen as part of a new equity portfolio with a particular focus on managing the risks associated with climate change.
- Other assets were sold during the year, as part of the wider investment strategy changes that were made for the Scheme. The assets sold were the credit opportunities portfolio, and some assets within the property and alternatives portfolios.

Before appointing LGIM as a new external equity manager, the Trustee received information on the fund and manager, and advice from its investment advisor, LCP. After the Scheme Year, TPI reviewed LGIM's Stewardship practices, including its voting and engagement policies, to make sure they met the Trustee's requirements in this area.



How we've voted during the year

TPI and any external investment managers cast thousands of votes every year, for and on behalf of the Scheme, in respect of our equity holdings.

Where we've invested money in listed equities, we can do so as part of pooled funds. These are funds where lots of investors pool money together to invest. In pooled funds, the right to vote lies with the fund manager, so we don't have any voting rights.

TPI reviews voting policies regularly for significant external managers to make sure they align with our policies and Stewardship priorities. The Trustee does not directly tell its managers how to vote.

We appointed LGIM as a new external equity manager in December 2022. For this mandate, we delegated voting rights to LGIM, having taken their voting and engagement policies into account when selecting and appointing them. We have included details on LGIM's voting policy on page 14.

We require TPI's voting policy to reflect the Trustee's own voting policy. We also require TPI's actions, when appointing external managers on the Trustee's behalf, to be in line with the Trustee's policy. After the end of the Scheme Year, we wrote to our significant external investment managers, to tell them about the Trustee's Stewardship priorities, set out our expectations, and let them know that we consider votes related to our priorities to be significant. We've shared our RI policy with the significant external investment managers, and with TPI.

TPI regularly reviews and reports on voting activity and on any relevant issues. You can find out more about this kind of reviewing and reporting towards the end of this statement.

It's important to us that, when voting on the Trustee's behalf, managers act in a way that reflects the Trustee's key beliefs around responsible investment (which are set out in our RI policy).

Although voting is one way to influence the equity investments we own, we can also engage more directly with the management of our portfolio companies. It is particularly important to be active in engaging with the management of non-equity assets such as corporate bonds, where we don't have voting rights, and property, where voting rights are different and less extensive than with equity ownership. We've provided examples of this kind of engagement in this Statement. Engagement with TPI's direct property portfolio is done by TPI and the property manager, in line with the Trustee's principles and policies (although there will also be some direct engagement with tenants, developers etc).

Both during the Scheme Year and afterwards, we reviewed our voting policy to make sure it reflects the Trustee's views on active engagement across the full range of the companies in which we're invested and the assets that we hold, and to make sure it sets out our expectations for external investment managers' own policies on voting and engagement.



Our most significant votes

Here are the three votes placed during the year that we consider most significant, as they best represent our Stewardship priorities, which include issues that form part of the Trustee's key beliefs around Responsible Investment (which are set out in our RI policy).

There were other votes placed during the year, when TPI voted against a proposal – or against the recommendations of [ISS \(Institutional Shareholder Services\)](#)* – but these were deemed less significant, due to either the size of the holding, or the subject or overall outcome of the vote.

Two of votes below relate to Stewardship priorities (corporate transparency and business ethics) that were not formally added to the Trustee's RI policy until after the end of the Scheme Year. However, they were still Trustee concerns during the Scheme Year. The Trustee believes that Stewardship in these areas is in the best financial interests of the Scheme's beneficiaries. To avoid repetition, we have not included multiple votes on the same Stewardship priority.

* see "Who's involved?" at the top of page 14

1. Vote against a compensation plan due to lack of disclosure on ESG considerations

Manager: TPI

Date of the vote: May 2022

Name, location and activity of company:

Yum! Brands, a large US consumer company

Approximate size of the holding at the date of the vote:

£81m, 2.1% of equity portfolio (as of April 2022)

Stewardship priority the vote relates to:

Corporate transparency

What we voted on:

A management proposal to update the remuneration structure

How we voted:

Against

Was the vote communicated to the company ahead of the vote:

Yes

What was the issue?

During the previous Scheme Year, TPI had engaged with a large US consumer company to seek improvement on how ESG considerations were taken into account in compensation structures.

How did we engage with the company?

As requested by the company, TPI shared its best practice principles around remuneration, and provided examples, where similar businesses disclosed the inclusion of ESG metrics into compensation.

At the following AGM, in May 2022, TPI had the opportunity to vote on the company's new remuneration structure. It assessed the proposal and concluded that the company had not yet achieved the level of disclosure that TPI encourages, and that the proposal was not entirely in line TPI's principles. TPI therefore planned to vote against the approval of the Chief Executive Officer's (CEO) compensation, in line with ISS's recommendation and against management's recommendation. Specifically, TPI took issue with the significant increase in the CEO's pay, following changes to the pay-out programmes and a one-time special award. Although ESG metrics had been taken into account more than previously, TPI wanted to see more clearly defined and quantified targets.

Ahead of the vote, TPI discussed its concerns with the company. In the end, TPI decided it could not support the vote until the company adopted TPI's remuneration principles, and so voted against.

What was the outcome?

TPI informed the company of its decision, noting the positive direction of travel, and encouraged the company to continue to make improvements to its compensation structure, to strengthen its commitments to sustainability. The company expressed its gratitude, for the engagement and for TPI's careful consideration, and shared the feedback with its compensation committee.

The vote was non-binding, but it's worth noting that 42% of shareholders also voted against the proposal.

What are the next steps?

There are no next steps. Due to strategic changes, the company is no longer in the Scheme's portfolio.

2. Vote concerning board gender diversity

Manager: TPI

Date of the vote: May 2022

Name, location and activity of company:

Partners Group Holdings AG,
a Swiss-based private equity firm

Approximate size of the holding at the date of the vote:

£17m, 0.4% of equity portfolio
(as of April 2022)

Stewardship priority the vote relates to:

Diversity and inclusion

What we voted on:

A management proposal to reappoint a member of the nomination and compensation committee

How we voted:

Against

Was the vote communicated to the company ahead of the vote:

Yes

What was the issue?

ISS recommended voting against the management's recommendation to re-appoint a member of the company's nomination and compensation committee, to indicate concern to the board about its lack of gender diversity. At the time, the board had 25% female representation.

How did we engage with the company?

TPI assessed the company's proposal and ISS's recommendation. Although the board's composition met the local best practice guidelines – the Swiss Code of Best Practice for Corporate Governance – TPI felt these were vague, as they only recommended that the board should have “male and female members”. In addition, TPI believed that 25% was too low, given that ISS's policy requires at least 30% representation for shareholder-elected directors.

Given this assessment, TPI decided to vote against management and informed the company of its decision, while offering to discuss further.

What was the outcome?

The committee member was re-appointed, but TPI's vote will have reminded shareholders of the importance of diversity. Supported by TPI, two new board members were elected by the shareholders, which did improve the gender diversity of the committee.

What are the next steps?

There are no next steps. Due to strategic changes, the company is no longer in the Scheme's portfolio.



3. Vote against a single person holding Chair and CEO roles

Manager: LGIM

Date of the vote: February 2023

Name, location and activity of company:

Accenture plc; a professional services company based in Dublin, Ireland

Approximate size of the holding at the date of the vote:

£1.7m; 0.3% of LGIM portfolio

Stewardship priority the vote relates to:

Business ethics

What we voted on:

A management proposal to appoint a member of the nomination and compensation committee

How we voted:

Against

Was the vote communicated to the company ahead of the vote:

No

What was the issue?

The company proposed electing a director. Where a joint Chair and CEO role is held in a company, LGIM votes against such proposals, to encourage the separation of Chair and CEO roles, with the aim of improving corporate governance through creating greater independence.

How did we engage with the company?

LGIM engages with the companies in which they're invested, publicly supports their position on this issue, and monitors company and market-level progress. On this occasion, there was no specific direct engagement beyond LGIM's usual activity. It is LGIM's policy not to engage with companies in the three weeks leading up to an AGM, as their engagement is not limited to shareholder meeting topics.

What was the outcome?

The director was elected, but LGIM's vote will have reminded shareholders of the importance of having independent Chair and CEO roles.

What are the next steps?

LGIM will continue to engage with the companies in which they're invested, publicly support their position on this issue, and monitor company and market-level progress.

Lessons learned from our most significant votes

The three examples above all involve cases where a vote against management was made, but where the vote was still approved.

In the first example, a significant proportion of shareholders (42%) voted against the proposal. In all of these cases, the engagement that was carried out with the voting was important in making sure the companies were made aware of the reasoning behind the voting activity. The intention was to drive change, even when voting against the final outcome. TPI's mandate ended during the Scheme Year, so there are no next steps relating to TPI's holdings.

TPI and the Trustee will continue to consider what lessons can be learnt from LGIM's voting behaviour, and from wider engagement activity, noting that LGIM's mandate was a new one, which came into effect during the Scheme Year.

The Trustee continues to believe that the Scheme's investment risks and outcomes can be improved through engagement with the companies in which we invest, and with other external parties, as appropriate. This activity extends far beyond voting activity, and some case studies have been included that reflect the wider engagement activity that took place this year.

A summary of our voting across the year

Who voted?	TPI	LGIM
Number of meetings voted at	59	200
Number of issues voted on	771 out of 787 (98%)	2,791 out of 2,817 (99%)
Number of times we voted for the proposal	722	2,194
Number of times we voted against the proposal	43	597
Number of votes abstained / withheld from	0	26
Number of times we voted with management	725	2,206
Number of times we voted against management	46	585
Time period of data	April 2022 – September 2022	January 2023 – March 2023

Votes have not been split out between ESG issues due to the data not being available at the time this Statement was prepared. The Trustee will include this information in future statements if it becomes available.



How our voting and engagement processes work

Voting and engagement at TPI is led by the investment teams, with support from the Responsible Investment Team, which suggests engagement activities, monitors outcomes, and agrees next steps. The Responsible Investment Team reports to the TPI Board and the Trustee.

Proxy voting, where someone else casts a vote at company meetings on our behalf, is an important engagement tool, which TPI used to improve engagement on internally-managed equities.

TPI used proxy voting to encourage better corporate behaviour across a range of topics, including to improve board diversity, disclosure on workforce diversity, and disclosure on political lobbying, as well as to encourage separation of Chair and Chief Executive Officer (CEO) Board roles within companies, with the aim of creating greater independence.

TPI used ISS (see page 14) to support its voting activity in publicly listed equities. ISS publishes research and makes recommendations about the way it thinks we should vote on various issues. During the year, TPI used ISS's research to examine all votes.

TPI considered and, where necessary, challenged ISS's recommendations before voting. This year, TPI voted against ISS's recommendations twice. When voting against ISS, the TPI investment team inform TPI's Chief Information Officer (CIO), explaining their reasons for going against ISS's recommendation. This would also be reported to the RIC or the IRC, depending on the subject matter of the vote. The RIC or the IRC would then report to the full Trustee Board. The company's management would also usually be informed of the reasoning behind for the vote.

TPI used various sources of information to research the issues that were voted on, including the following:

- risk ratings from Sustainalytics, a Morningstar company
- scores from the Carbon Disclosure Project
- the company's own reports and proxy filings

This helped to make sure that TPI's teams were assessing ESG risks consistently, and finding areas where more research might be needed. All of TPI's voting activity was carried out in line with the Trustee's RI policy.

The Scheme has not held direct equities through TPI since September 2022. It now has now has investments in externally-managed equities funds, which TPI supervise. TPI's Responsible Investment team examines these managers' voting and engagement policies, to make sure they are in line with the Scheme's RI policy and its Stewardship priorities. TPI monitors voting activity and, where appropriate, uses its influence to support the Trustee's objectives on a given theme or vote. TPI will raise any concerns it has, about how a manager is using its powers to vote or engage, with the Trustee. TPI may also escalate the issue through further engagement or, in extreme cases, divestment.

The Trustee makes sure it understands and is comfortable with its investment managers' engagement and escalation policies, and that these policies are appropriate for the relevant mandate. For external investment managers, this responsibility has been delegated to TPI. Since the end of the Scheme Year, the Trustee has agreed an approach for the escalation of engagement issues relating to its external investment managers. The RIC takes an active approach to reviewing, questioning, and challenging the information it receives, and it raises any concerns that it identifies. This approach has been shared with all the significant external managers.

Some managers let investors vote on their own shares, or use a proxy service that's independent of the manager. This was not done during the Scheme Year, but could be used in future.

Who's involved?

The Trustee

The Trustee sets the strategy for the way the Scheme invests, which helps guide the way votes are made and how we engage with companies. The Trustee receives advice on its RI and ESG work, and on updating its RI policy, from its investment advisors and its legal advisors. You can read more about the strategy in the SIP.

Tesco Pension Investment Ltd (TPI)

TPI is appointed by the Trustee to invest the Scheme's assets and, where relevant, to vote on the Trustee's behalf. TPI has developed an RI team, which is focused on ESG and RI matters and works closely with investment professionals across the firm, reflecting the importance of RI to the organisation.

Institutional Shareholder Services (ISS)

ISS was TPI's proxy voting advisor, until the Scheme stopped holding direct equities in September 2022. Before then, ISS carefully reviewed all the issues TPI could vote on, and made recommendations to TPI about how it thought TPI should vote. Unless TPI intervened, ISS would vote on TPI's behalf and in line with ISS's own recommendation.

External managers

Where TPI appoints external managers to manage a portion of the Scheme's assets, they will also cast votes on the Trustee's behalf. Every year, TPI shares the Trustee's Stewardship priorities and expectations with the Scheme's equity managers, the Liability-Driven Investments (LDI) fund manager, and other significant external managers. During the Scheme Year, LGIM was appointed as a new external equity manager.

How LGIM's (Legal & General Investment Management's) voting process works

LGIM's Investment Stewardship team make all decisions, in line with LGIM's Corporate Governance and Responsible Investment policy, and their Conflicts of Interest policy. Both policies are reviewed annually.

Each member of LGIM's team is allocated a specific global sector, so that voting is carried out by the same individuals who engage with the relevant company. This helps to make sure that the Stewardship approach flows smoothly throughout the engagement and voting process.

LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform. All voting decisions are made by LGIM, who do not outsource any part of the strategic voting decisions. ISS's recommendations are used purely to support LGIM's own research and ESG assessment tools. LGIM's Investment Stewardship team also uses [Institutional Voting Information Services \(IVIS\)](#) research reports, to support ISS's research reports for UK companies when making particular voting decisions.

To make sure the proxy provider votes reflect LGIM's position on ESG, LGIM has put a custom voting policy in place, which includes specific voting instructions. These instructions apply to all markets, globally, and are designed to maintain what LGIM considers to be the minimum best practice standards.

In all markets, LGIM retains the ability override any voting decisions that are based on their custom voting policy. This may happen where engagement with a specific company has provided additional information (for example from direct engagement, or explanation in the annual report) that allows LGIM to apply a qualitative overlay to their voting judgment. LGIM has strict monitoring controls to make sure that votes are fully and effectively executed in accordance with the voting policies by the service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform LGIM of rejected votes which require further action.

You can read more about this, and LGIM's policies, by visiting: lgim.com/uk/en/capabilities/investment-stewardship

How we've followed our voting and engagement policies.

Our voting and engagement policies are set out in our [Statement of Investment Principles \(SIP\)](#). We were able to follow these policies throughout the year by doing these three things:



* This is implemented by TPI on the Trustee's behalf, in accordance with the policies set by the Trustee

1.

Delegating to our managers, and making clear what we expect of them

We've delegated voting rights and engagement activities around the Scheme's investments to TPI, and to our other investment managers.

Whether voting, engaging, or appointing external managers on the Trustee's behalf, TPI has to consider the policies set out in our SIP and our RI policy. TPI has confirmed that it complied with this requirement throughout the Scheme Year.

We expect TPI and any of our external fund managers to take account of RI and ESG factors as financially material considerations. This includes climate-related risks, which can have a financial impact on the Scheme's investments.

2.

Reviewing our managers' decisions and engaging with them

Since the end of the Scheme Year, TPI has written to the Scheme's external equity managers, the LDI fund manager, and other significant investment managers, to communicate the Trustee's Stewardship priorities and expectations for engagement and reporting, and that we consider votes relating to our priorities to be significant.

Regular reviews

Given the number of decisions that have been delegated, TPI does not review every decision taken by external managers, but does engage with them regularly, and reports any material observations and conclusions to the Trustee. No issues that would require further action by the Trustee were identified during the Scheme Year.

TPI and our investment advisor, LCP, report quarterly on the Scheme's investment performance, to the IRC and to the Trustee. They also report quarterly to the RIC, on all things relating to ESG and RI. As part of these reports, TPI provide an ESG update, which includes a summary of engagement and Stewardship activity. The Trustee also receives regular updates from the RIC, as part of its work relating to the TCFD recommendations.

LCP also carries out regular reviews of TPI's investment desks, and considers RI and ESG as part of those reviews. The RIC considers these reports and related advice, and discusses RI-related performance – including updates on engagement and voting – with TPI, at least once every three months.

When external managers are used, TPI monitors and reviews those managers. This includes formal review calls with key managers, during which they will discuss RI, including Stewardship practices, and any areas where the manager is not meeting the Trustee's expectations. TPI will report any relevant updates to the Trustee. No issues requiring action by the Trustee were identified during the Scheme Year.

2.

Reviewing our managers' decisions and engaging with them (continued)

Other, less frequent, reviews

TPI reports to us, at least once every three months, on its voting record, its discussions with management at the companies we're invested in, and on any key votes (particularly controversial ones) that TPI wishes to discuss with the Trustee. Due to the changes in the equities portfolio, there was no annual review in addition to the quarterly reviews during the Scheme Year, but there will be annual and quarterly reviews during the next Scheme Year.

As part of the annual review, TPI intends (as far as is possible) to consider voting behaviour against the Trustee's policy, and to raise any controversial issues with the Trustee. The Trustee expects TPI to raise any issues that it considers material with the Trustee, taking into account the Trustee's views and its RI policy.

For listed equity, TPI had a systematic approach to engagement that included sending formal letters to portfolio companies raising key ESG issues or areas of improvement.

Each year, LCP independently reviews TPI's activities against the objectives set by the Trustee, as well as our expectations of TPI. The resulting reports include a focus on what TPI is doing about RI and ESG considerations, and any climate-related risks. The Trustee sets LCP objectives for RI and ESG too, and annually reviews their performance against those objectives.

At least once a year, TPI will carry out a longer and more detailed review of the significant external managers, on the Trustee's behalf. The combination of this review and the quarterly reviews that the Trustee receives allows the Trustee to monitor the managers' practices, escalate any issues that are identified and, where necessary, take action to engage with and influence these external managers' behaviours.

3.

Engaging with private markets and other fund managers

Where the Scheme is invested in private markets funds, voting does not work in the same way as it does with the public businesses we're invested in. TPI can vote in some private markets, for example at some private market fund AGMs, or where a vote is required to change a fund's terms. TPI carefully considers how it uses its voting rights and reports to the RIC on any appropriate matters.

The Trustee has other ways to use its influence to achieve positive outcomes. When considering new private markets investments, TPI carries out detailed due diligence on the Trustee's behalf, which includes the careful consideration of fund managers' policies and reporting, and how their policies inform the decisions they make.

On the Trustee's behalf, TPI will monitor managers and their underlying private markets investments, and engage with them through a regular schedule of performance reviews, fund monitoring, limited partner advisory committees, and directly targeted communication. There's a case study of engagement with the Scheme's portfolio of supermarket property investments on the next page.

For corporate debt and infrastructure (a key focus this year), among other matters, TPI focused its engagement activities on encouraging systematic climate reporting, to enable better risk assessment. A case study relating to the Fixed Income portfolio is included earlier in this Statement. In addition, TPI's private markets team used an ESG Due Diligence Questionnaire that was previously issued to direct engagement activity during the year, including in relation to Diversity and Inclusion. Answers were assessed on both the risks related to the underlying strategy and the managers' approach to ESG, including climate risks. These types of initiative will help the Trustee to direct its engagement activities, taking account of financially material opportunities and risks.

Case Study: Portfolio of property investments

What was the issue?

TPI needed to assess the EPC ratings of each asset in the portfolio, to ensure that they are on track for improving energy efficiency and meeting minimum standards. Additionally, TPI required updated emissions data.

What actions did TPI take?

TPI engaged with the company, so it could understand how it obtains its renewable energy. TPI also collected Energy Performance Certificate (EPC) ratings data from all the assets, and instructed its consultant to collect emissions data.

What was the outcome?

TPI's team was able to identify where there might be gaps or room for improvement in sourcing renewable energy, and in energy performance. TPI was also able to review multiple years' worth of emissions data, and see that there were encouraging reductions in energy-related emissions.

What are the next steps?

TPI will continue to monitor the actions required to improve the assets' EPC ratings. It will also include renewable energy figures in its climate reporting from the property manager, and continue to engage on the buildings' alignment with Net-Zero, and the scope to reduce emissions.





We'll keep you updated

We'll produce a new version of this statement every year, so you can keep track of how the Scheme is investing.

We look forward to sharing what we're doing to make the Scheme's investments more responsible over time, with even more consideration of ESG factors, including climate change.

You can find out more about this in our separate reports on climate change and stewardship, which are also produced once a year. You can read the latest reports here: pensionwebsite.co.uk/scheme-investments-gsi