

Tesco PLC Pension Scheme

Climate change report 2026

For the year ending 31 March 2026

How we structure this report

01 Introduction

An introduction from the Chair of the Trustee and a summary of the Scheme, its priorities, achievements, progress and what we're focussing on for the future.

02 Governance

The governance structure and arrangements that the Trustee has used to consider climate-related risks and opportunities.

03 Strategy

The approach and impact of integrating climate-related risks and opportunities into the strategy of the Scheme, including the assessment of climate-scenario modelling.

04 Risk Management

Including how the Trustee identifies, assesses, and manages climate-related risks and opportunities.

05 Metrics and Targets

How they are used to assess and manage climate-related risks and opportunities.

06 Climate-related activities

The steps we've taken towards our Net-Zero goal, the actions we plan to take, and what this means for the Scheme.



01

Welcome

Welcome to our Annual Climate Change Report 2026

On behalf of the Trustee, I'm pleased to share this year's Climate Change Report.

Our main responsibility is to pay pensions and other benefits to our members. To support this, we continue to invest the Scheme's money carefully and responsibly, making decisions today to help protect the Scheme for the future. The Scheme remains in a strong financial position.

In this report, you'll find an update on how we're considering climate change in our investment decisions, the progress we've made towards our climate goals, and where we're focusing our efforts next.

Climate change continues to affect people, businesses and communities around the world. That's why we're working closely with our investment managers and advisers to further our understanding of the risks and opportunities it may bring, while keeping a close eye on other long-term trends that could affect the Scheme.

Over the last year, we updated the future climate scenarios that we use. This will help us to better understand the potential impact of climate change on economies, companies and the Scheme. Over the coming year, we plan to focus more on the physical effects of climate change, such as the risks of floods and droughts, and what they could mean for the Scheme's investments.

We've made progress towards our Net Zero ambition, but we know there's still more to do. We recognise that global progress to reduce carbon emissions has not been as fast as we would all hope and we'll continue to monitor developments, learn from experts and take climate considerations into account as part of our responsibility to manage the Scheme's assets for the benefit of members.

We hope this report gives you a clear and helpful overview of the work we're doing.

If you're unfamiliar with some of the terms used in the report, you'll find a simple explanation in the **Additional Information section**.

If you have any comments or questions about this report, please call the Pensions Team on **0345 070 1113**, or email us at **pensions.dept@tesco.com**.

Ruston Smith,
Chair of the Trustee



Ruston Smith, Chair of the Trustee

Summary for Members

Climate change can affect economies, businesses and investment markets around the world. Because of this, we consider climate-related risks and opportunities when making investment decisions for the Scheme.

By taking climate change into account, we're helping to protect members' benefits while supporting the transition to a lower-carbon future.

In this summary, you'll find:

- Our climate priorities
- What we've achieved this year
- Our progress so far
- What we're focusing on next



Our climate priorities

We believe climate change is a financial risk, but also offers investment opportunities, that must be considered in our investment decisions. Our key priorities include:

- **Understanding climate risks:** We regularly assess how climate change could affect the Scheme's investments so we can make informed decisions and help protect members' benefits.
- **Working towards Net Zero:** We continue to progress towards our ambition for the Scheme's assets to have Net Zero carbon emissions by 2050. You can find more information about our targets on **page 24** of this report.
- **Driving positive change:** We work with our investment managers and the companies we invest in to encourage actions that support the transition to a lower-carbon economy.

This year we have:

- Continued to build our knowledge and understanding of climate-related risks and opportunities.
- Fully integrated responsible investment into our investment and risk decision-making process.
- Updated how we assess climate change by introducing a new approach that considers potential long-term impacts and climate "tipping points".
- Continued to engage with companies and investment managers to support climate progress and our Net Zero ambition.
- Participated in industry initiatives designed to encourage organisations to reduce emissions and protect nature.
- Improved the quality and coverage of climate data across our investments, particularly in private markets.
- Updated our assessment of climate-related risks and opportunities to reflect our latest understanding.

Our progress so far:

Assets continue to work towards Net Zero

61% of the public companies, property and infrastructure investments we hold are aligned, aligning, or committed to aligning with Net Zero by 2050.

Our target:
70% by 2030

Over 80% of emissions engaged

80% of financed emissions are aligned, or have been actively engaged with on alignment, over the last 24 months.

Our target:
70%

Emissions reduction on track

Our target:
2030 reduction target already achieved.

What we're focusing on next

Over the coming year, we'll continue to:

- Track progress towards our Net Zero ambition.
- Work with our investment managers and advisers to encourage positive change.
- Develop our understanding of the physical impacts of climate change on investments.
- Improve the quality and coverage of climate data across the Scheme's investments.
- Review our climate targets and responsible investment policies to ensure they remain relevant and effective.

This is a very high level summary of our progress and doesn't capture all of the details, which can be found later in this report.

While progress has been positive, we know there is still more to do, and we'll continue to monitor our targets and opportunities.

Full details on the climate data we've collected and the progress we've made this year towards our targets, are shown later in this report.



We'll continue to share updates on our progress each year.

Our scheme

The Tesco PLC Pension Scheme ("the Scheme") is a defined benefit scheme with over 300,000 members. It was closed to future service benefits in November 2015. The Scheme had total assets of approximately £10.9bn as at 31 December 2025.

Our main objective is to make sure that the Scheme is able to pay the members and their families the pensions and benefits that have been promised. In order to achieve this now and in future, we need to invest the Scheme's money.

Our investment strategy is to generate the returns required in the Scheme's funding plan in a risk-controlled way, by investing in a range of different types of assets.

The table is a summary breakdown of how the assets were invested as at 31 December 2025. A summary of assets as at December 2024 is also set out in the table. The Scheme's asset allocation aims to provide strong returns on its investments, reduce risks including climate risks, and ensure there are sufficient funds available to pay benefits to members and cover its other obligations.

We are required to produce formal disclosures in line with the **recommendations** of the Task Force on Climate-related Financial Disclosures (TCFD) that help companies effectively share how they review and monitor climate-related risks and opportunities.

We are using the **IIGCC Net Zero Investment Framework**, one of the most widely used guides for investors for Net Zero targets and strategies, to support our work on our Net Zero ambition. Metrics and disclosures on the Net Zero ambition are included in this report, in addition to our TCFD disclosures.

Asset class	31 December 2025 (%)	31 December 2024 (%)
Matching Assets		
LDI	34%	29%
Liquidity	4%	6%
Public Markets		
Equity	21%	22%
Corporate Fixed Income	10%	11%
Private Markets		
Private Credit	9%	10%
Infrastructure Equity	6%	6%
Direct Property	2%	1%
Indirect Property	5%	7%
Project Gold*	<1%	1%
Private Equity	7%	8%
Alternatives	<1%	<1%

*See **Terms Used** section of this report for a definition

Totals may not sum due to rounding.



02 Governance

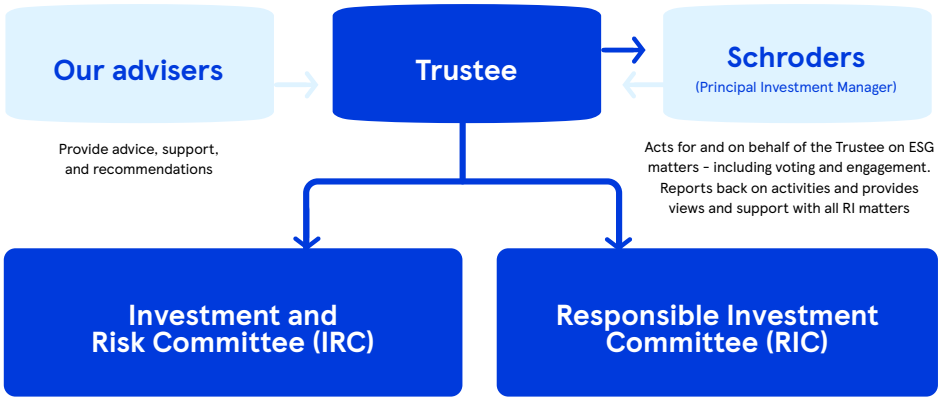
We have a robust governance structure in place, which benefits from collaboration with, and advice from our advisers and Schroders, with the aim of better identifying and assessing climate-related risks and opportunities for the Scheme.

We use sub-committees, including a Responsible Investment Committee (RIC) (now integrated into the Investment and Risk Committee (IRC)). The RIC met to discuss responsible investment (RI) matters and supported the management of RI activities, including climate change. The RIC made recommendations to us, the Trustee, on identifying, assessing, monitoring, and managing climate-related risks and opportunities.

As our approach to responsible investment is now fully integrated into our investment decision making and risk management, we agreed to integrate the RIC into the Investment and Risk Committee (IRC), the main sub-committee responsible for investments, in the Scheme year commencing 1 April 2026. More information on the change can be found later in this section.

We believe that our governance structure (for this Scheme year and following the changes mentioned above) provides the right level of expertise to make sure that our advisers are appropriately challenged and questioned, and that everything is fully understood and in the best interests of the Scheme and our beneficiaries.

Later in this section we include information on the specific governance activities carried out this year.



Roles and Responsibilities

The Trustee

As the Trustee, we have ultimate responsibility for the Scheme's governance activities. Our role is to review and consider any information, decisions, and proposals made by our advisers and the Committees. Having done so, we will then confirm or amend any decisions or proposals made, and make sure they're implemented appropriately, with ongoing support from the IRC, the RIC, and our advisers.

We meet at least four times a year and make sure that climate change is addressed throughout the Scheme's activities. This includes reviewing, discussing and challenging the information and advice we receive.

In relation to investment and climate risk management, our role over the year included the following:

- Setting investment objectives and strategic asset allocation frameworks and taking decisions on the investment strategy.
- Setting our investment beliefs, RI policy, and risk registers.
- Considering climate-related risks and opportunities (and setting the Scheme's strategy over the short, medium, and long term).
- Considering the results of climate-scenario analysis to understand the range of potential outcomes and their implications.
- Making sure the greenhouse gas emissions data attributable to the Scheme's assets is obtained in line with legislation.
- Setting the Scheme's investment metrics and targets in connection with climate change and reviewing progress against targets.
- Communicating with Scheme members, beneficiaries and other stakeholders on climate change, where appropriate.
- Making sure the climate governance arrangements remain appropriate and effective.
- Taking decisions on any covenant or funding-related actions required as a result of climate change reviews carried out.
- Agreeing training requirements and scheduling them into the business plan.

The RIC and IRC

The RIC and the IRC typically provide us with updates and guidance on their activities quarterly, including certain decisions the RIC and IRC can take under delegation. We've included more detail later in this section on changes to the RIC's decision making during the year. The committees also make recommendations for us to consider. They achieve this by:

- Requesting advice and getting input from our investment, actuarial, covenant, and legal advisers, to make sure that we are able to fully consider, identify, assess, and manage climate-related risks and opportunities at a Scheme-wide level.
- Reviewing and discussing all investment advice received, including advice that considers climate change. This includes commissioning detailed analysis on investments where considered appropriate.
- Reporting back to us and making recommendations on investment and climate change issues.
- Reviewing the competency of advisers, including their advice on climate change, and taking action if and when any concerns are identified.

The RIC met four times in the Scheme year to progress responsible investment activities, and to consider recommendations to us. Climate change has continued as a particular focus, and we have committed appropriate time and resources to make sure that our objectives in this area have been met. This has been driven by our view on the potential impact of climate-related risks and opportunities, as well as compliance with our legal obligations on climate.

The minutes of each RIC and IRC meeting, recommendations from the RIC and the IRC and updates on RIC and IRC decisions, are shared at the Trustee meetings for review, consideration, and (where required) for decision. More urgent decisions or information go to us outside of our normal meeting cycle.

In March 2026, we agreed to integrate the RIC into the IRC from next Scheme year (2026-27). We initially established the RIC in response to a rapidly evolving regulatory and stewardship landscape. Since then, reporting has been standardised and the Scheme's RI policy has become fully integrated into the Scheme's investment approach. This change will improve the integration, effectiveness and efficiency of the oversight and management of the Scheme's responsible investment risks and opportunities. Further detail on the change and the IRC's role and responsibilities will be included in next year's report.

The Principal Investment Manager

As principal investment manager to the Scheme, **Schroders' responsibilities include**:

- Providing monitoring information and support to the RIC and IRC.
- Providing information on the approaches it has taken to support the RIC with identifying, assessing, monitoring and managing climate-related risks and opportunities.
- Providing information on the approaches the external managers have taken for identifying, assessing, monitoring and managing climate-related risks and opportunities.
- Providing reporting to us, the RIC and the IRC on climate risks and opportunities.
- Voting on the Scheme's behalf and engaging with companies where appropriate. Reporting on voting activity and case studies, and engagement activity, including examples of engagements across asset classes on themes we prioritise.
- Sourcing emissions and alignment data for the Scheme assets to the extent possible and engaging with external managers on sourcing data as fully as possible.
- Working closely with the Scheme's advisers and the Tesco Pensions Team, to make sure all necessary activities are carried out, and that the required information is reported to us, the RIC, and the IRC.

Tesco Pensions Team

The role of the Tesco Pensions team is to make sure that we, the RIC, the IRC and our advisers have full access to all the information needed on the Scheme, and to support any decisions made.

The Tesco Pensions team attends our climate-related training sessions, the IRC's and the RIC's meetings, and is part of the regular and ongoing discussions with the advisers and Schroders. The team acts as the risk management function for us and presents on the relevant key risks at each IRC and RIC meeting and whether the risk levels have changed. We monitor the performance of the Tesco Pensions Team through regular feedback including external board effectiveness reviews. The Tesco Pensions team also attends industry collaboration groups on behalf of the Scheme, representing us on various groups.

Schroders is required to take account of our RI Policy. Information and reports from Schroders are discussed at each RIC meeting.

With our advisers, we support, review, and (where appropriate) challenge Schroders to make sure our actions, and the information we are given, are appropriate.

Other Advisers

We have appointed various advisers to provide support and advice in assisting us with all aspects of the Scheme's governance activities, including climate-related risks and opportunities. These advisers include:

- Eversheds Sutherland, our legal advisers.
- Lane Clark & Peacock (LCP), our investment advisers.
- Interpath, who provide advice on the sponsoring employer's covenant (ie Tesco PLC's ability to provide financial support to the Scheme).
- Willis Towers Watson (WTW), who provide actuarial and funding advice and support

Service Provider Objectives and Reviews

We set objectives for LCP, WTW, Interpath and Schroders every year. The objectives include the requirement to support us in managing climate-related risk and opportunities for the Scheme.

The advisers and Schroders are assessed against these objectives every year, and we use these assessments to satisfy ourselves that our advisers have the right skills and knowledge and to make sure that sufficient steps are being taken to identify, assess, and manage climate-related risks and opportunities for the Scheme.

We carry out reviews of all our service providers at least annually. As part of these reviews, the extent to which service providers have assisted us with our governance activities (including those that relate to our climate activities) are considered, and any pieces of feedback or required enhancements are communicated to the service providers.

When we review our service providers or appoint and put in place agreements with new service providers, the service provider's climate-related responsibilities are reviewed, and any climate-related objectives are reviewed or set. We expect climate-related responsibilities for any new external investment managers to be discussed and agreed at the start of their appointment.

Governance activity carried out this year

The following governance-related activities took place in the Scheme year:

Setting and Reviewing Responsible Investment Objectives

We set new objectives for LCP, WTW, Interpath and Schroders that included climate change and stewardship considerations. In the past year, we also reviewed LCP and Schroders against the prior year's objectives. This process makes sure that the Scheme's responsible investment strategy develops in line with expectations and that investments are managed in line with our beliefs.

Updates to Climate Reporting Responsibilities

Following discussion at a Trustee meeting, future responsibility for approving climate metric data for TCFD disclosures was delegated to the RIC to reflect the committee's expertise in this area. The Terms of Reference were updated to grant the RIC authority to sign off the Climate Change Report. Both changes came into effect in October 2025.

Review and Update of the Responsible Investment Policy

Our RI policy (including beliefs) was reviewed in September 2025. There were no substantial changes made. The RI policy was refreshed to align with current guidance and industry practice and to provide greater clarity on how our approach is applied across asset classes and managers.

Monitoring and Improvements to Responsible Investment Reporting

Monitoring and reporting were provided at each RIC meeting by Schroders, LCP and Eversheds Sutherland. With our guidance, Schroders improved their responsible investment reporting to help us monitor quarter on quarter changes more effectively. For equity and fixed income investments, Schroders provided reports on engagement updates that were aligned with our priorities, focusing on the Scheme's most material holdings. Schroders also reported on engagements across private asset classes.

Review and assessment of Climate Metrics Data

Schroders gathered and shared data and analysis on climate metrics with the RIC in March 2026. We review and challenge the information received to ensure it is appropriate. For example, during the year we, with support from LCP, challenged the quality of metrics and targets data for private equity, and considered the limitations of using normalisation of the emissions metrics for the asset classes with low coverage and poor quality. The overall decision was to exclude private equity data as it could be misleading.

Further information is given in the Metrics and **Targets section**.

Responsible Investment and Climate Change Training at the Trustee Away Day

At the annual Trustee away day, two of the four sessions covered responsible investing themes, reflecting the importance of the area. These were:

- A panel session where speakers provided updates on emerging climate themes, including evolving Net Zero pathways, increasing physical and transition risks, and the growing role of nature related risks in investment decision making. The session also explored investment opportunities aligned with the energy transition and climate resilience, particularly in real assets. This helped support our understanding of how these trends may influence long term portfolio strategy.
- A session with Professor Tim Lenton of Exeter University on translating complex Earth system tipping point science into practical insights for risk assessment. The session highlighted both the systemic threats from climate and nature loss and the potential for positive tipping points to accelerate progress toward Net Zero.

Climate Reporting Compliance and Governance Review

We covered all our obligations relating to climate reporting through the year including reviewing all analysis provided by service providers. Within the Scheme year this included:

- Scrutinising new asset classes added to the Scheme's portfolio and how they align with our objectives.
- The metrics and targets for the Scheme, with a focus on the outcomes of increased private market coverage and the effect of implementation changes.
- Reviewing the Scheme's governance arrangements in March 2026. We decided to combine the RIC with the IRC, to reflect the integrated approach that we take to the consideration of responsible investment matters within wider investment decision making and risk management. Further information will be available in next year's report.

Climate Change and Responsible Investment Training

We consistently receive training on matters relating to climate change. Any knowledge gaps identified were addressed within the training. Training this year included:

- Governance issues including business ethics, commitments, corporate transparency and voting.
- Changing political landscapes and the implications for responsible investment.
- Climate scenario analysis – we learned about a new way to look at climate risks, moving away from quantitative models that can understate real-world issues. Experts explained what these risks could mean for the Scheme and Tesco. This new approach has been used in the scenario analysis section on **page 14**.
- SustainEx – a tool developed by Schroders which aims to translate the actions of companies and governments into financial costs and benefits.
- NatCapEx – a tool developed by Schroders to measure how companies impact nature. It looks at what a company does, where it operates, how well it manages environmental issues, and whether it provides solutions that help protect or restore nature.
- How investing in nature can help with Net Zero ambitions.
- Social impact investing in practice.

Case study

The case study below covers a review of our responsible investment practices and governance



What was the background?

As it had been a number of years since we first established our overall approach to responsible investment, we carried out a review of our practices to consider how our approach compares to regulatory expectations and to peers, and to identify priority areas to focus on next.

What actions did we take?

We assessed our responsible investment practices using a framework designed by LCP, that considered our RI approach across five categories: ESG foundations, investments, engagement, climate change and broader sustainability. Each area was independently assessed by LCP.

LCP assessed our overall approach as strong, comparing well against a group of peers.

The exercise supported a discussion around our desired level of ambition across various areas of responsible investment and helped us identify priority areas to focus on in the following Scheme year.

What are the next steps?

Some of the key areas that we identified to focus on include:

- Physical climate risk: we are engaging with our managers to better understand their approaches to managing physical climate risks and opportunities and to consider how we can monitor this area more effectively over time.
- Transition planning: understanding developments relating to transition planning and revisiting our own plan for working towards net zero carbon emissions, including a review of our targets in the context of wider global developments.
- ESG (including climate) risks within wider investment decisions: continuing to develop our approach to ensure effective integration. Following the Scheme year-end, we amended our committee structure to support this.

We will continue to review our responsible investment approach as industry practice evolves and to ensure we focus on areas with the greatest impact on our long-term investment outcomes.

03 Climate Strategy

Our ambition is for the Scheme's assets to have Net Zero carbon emissions by 2050. This section sets out the strategic approach we are taking to meet this ambition as well as, more generally, to take account of climate related risks and opportunities in our investments. The Net Zero ambition is driven by our view that climate-related risks and opportunities could affect the value of the Scheme's assets, due to the impact of climate change on specific holdings, or from its broader impact on the global economy.

Assessing the strategy

We use various tools to assess the impact of climate-related risks and opportunities on the strategy and the investments that we hold. These include:

Completing climate-scenario analysis

We consider how the Scheme may be affected under a range of different climate scenarios. This includes the implications for the Scheme's assets, liabilities, funding and investment strategies, and journey plan. An important part of this analysis is the consideration of how Tesco might be affected by climate-related factors, and the resultant implications for the Scheme. Our approach to scenario analysis has evolved as we have shifted to using a qualitative approach over quantitative modelling. We agreed to make this change as we considered that quantitative modelling may under-represent the potential risks of climate change.

The qualitative approach involves considering the latest climate science and looking at the impact of potential scenarios on the Scheme. The climate science is considered in the context of the Scheme's timescales, assets and funding position.

We intend to continue using a qualitative approach, but this may depend on how quantitative approaches develop. We will revisit the approaches and their appropriate use at the next climate scenario analysis review.

Assessing investments

With support from Schroders and our advisers, we periodically (including in the Scheme year ending 31 March 2026) consider the activities of the asset managers we invest with, or that we intend to invest with, in the context of climate-related risks and opportunities. This includes assessments of current and prospective investments and external managers by Schroders.

Monitoring a range of climate-related metrics in relation to the Scheme's assets

We consider a range of climate-related metrics and are provided with training and support from Schroders and our advisers on assessing which metrics we will monitor. The metrics are set out in pages 23 to 25 of this report.

We have received advice from our advisers on how climate-related factors and the associated risks and opportunities may

affect the investment strategy, the funding strategy, and Tesco.

The climate-related risks and opportunities identified over the year were monitored and managed at RIC meetings and reported to us, through the climate-related risks and opportunities register ("the CRRO register"). There was a formal review of the CRRO register incorporating the climate scenarios in September 2025, which is set out in the risk management section of this report. When reviewing the metrics and targets information in March 2026, the risks and opportunities set out in the CRRO register were considered by the RIC in light of the metrics and targets information collected for this report. A further such review of the CRRO register, exploring some of those themes in more detail, was carried out in June 2026.

Each of these risks and opportunities can have an impact on the Scheme over the short, medium, and long term. More detail on some of the potential risks and their possible impact on the investment strategy, funding strategy, and Tesco covenant are outlined on page 13.

We have a wider risk-management framework and risk register, which also includes risks related to responsible investment and climate change. We review the risk impact of any RIC agenda items and consider whether the ESG section of the wider risk register requires updating at relevant points throughout the year (in addition to the review of the CRRO register). During each review, we considered the risks in detail and updated the ratings where required.

Our different time horizons

We have defined short, medium and long term time periods for the purpose of identifying, assessing and managing climate risks and opportunities:

Time horizon	Definitions	Rationale for choice
Short term	over the next 15 years	Deemed suitable based on expected changes in climate change data quality and climate regulations
Medium term	5 to 10 years	Time period was considered as important for significant changes to be made to limit global warming
Long term	10 to 30 years	Broadly aligned with current estimates of the duration of the Scheme's liabilities

Investment-specific risks and opportunities include:

short term

Regulatory risks

For example, carbon tax or carbon pricing and the potential impact on global markets and asset pricing, failure to meet reporting requirements, and changing regulation (either weakening or increasing) and the resulting impact on business models and asset pricing.

short to medium term

Manager-related risks

For example, the risk of insufficient expertise to make climate-informed decisions, inadequate data on individual holdings, insufficient portfolio-level risk analysis, reporting disruptions, or ineffective Stewardship.

short to medium term

Market-wide financial risks

For example, lower and/or more volatile asset returns associated with a transition to a low carbon economy, mispricing of risk and opportunities, heightened geopolitical risk and potential reduced political support for climate initiatives, and the potential for broad market instability.

medium to long term

Sector or company-specific risks

For example, potential impacts on company earnings, increased risk of stranded assets (especially where "tipping points" are reached) or reduced sentiment, or reputational risk impacting security prices.

medium to long term

Sector or company-specific opportunities

For example, potential growth areas associated with tipping points and as a result of new technologies or regulation, or increasing scrutiny over climate decisions and disclosures providing opportunities to make better informed decisions.

medium to long term

Variations by asset class

Asset classes may be affected by climate change in different ways. Equities are very exposed to price volatility. Downside and default risks matter for credit-related assets. Physical risks are particularly important for real assets.

Funding and covenant specific risks include:

short term

Significant changes in covenant security

For example, climate-related risks and opportunities and supply chain issues caused by climate change (which could impact Tesco PLC and its ability to fund the Scheme).

medium to long term

Potential financial and demographic impact on cashflows

For example, potential shocks to gilt yields and inflation (which could have a positive or negative impact on the Scheme's funding position), and direct or indirect impacts on life expectancy (which could also be positive or negative).

medium to long term

Potential impact on journey planning

For example, market shocks caused by climate change could throw the Scheme's de-risking journey plan off track, or climate impacts and regulatory requirements could affect the cost of any insurance options that we may want to consider.

Climate scenario analysis

In the Scheme year, we adopted a new approach to scenario analysis. This was prompted by the industry wide debate around the limitations of quantitative climate scenario analysis, including the challenge that more conventional scenario analysis approaches may not adequately allow for the outcomes that could result from "tipping points" being reached. The new approach to scenario analysis, which has a qualitative focus, is explained below.

In June 2025, we met with a range of climate experts to discuss tipping points and their potential impact, as well as exploring topics such as Net Zero, climate and nature positive investments. Together these sessions provided us with insights into how climate change could directly impact financial markets, the Scheme and Tesco. The sessions also identified the significant level of uncertainty around outcomes and the actions that can be taken to manage the risks and capture opportunities.

In September 2025, the RIC considered how the narrative climate scenarios would be used by the Scheme to deepen understanding of climate-related risks. In addition to regular reviews of the climate-related risks and opportunities register, these scenarios were included within asset class discussions during the year.

For example, the climate scenarios were used by the IRC when reviewing asset-backed securities in October 2025 to improve understanding of the climate-related risks and opportunities relevant to the asset class. Data challenges associated with the asset class were noted as well as potential engagement opportunities to seek to improve practices.

We have also considered how the scenarios could potentially impact the Scheme's liabilities and funding strategy. We intend to integrate the scenarios into future funding considerations, where possible and appropriate.

In June 2026, the IRC re-visited the narrative climate scenarios, discussed how they are relevant for the Scheme and agreed not to make any changes to them.

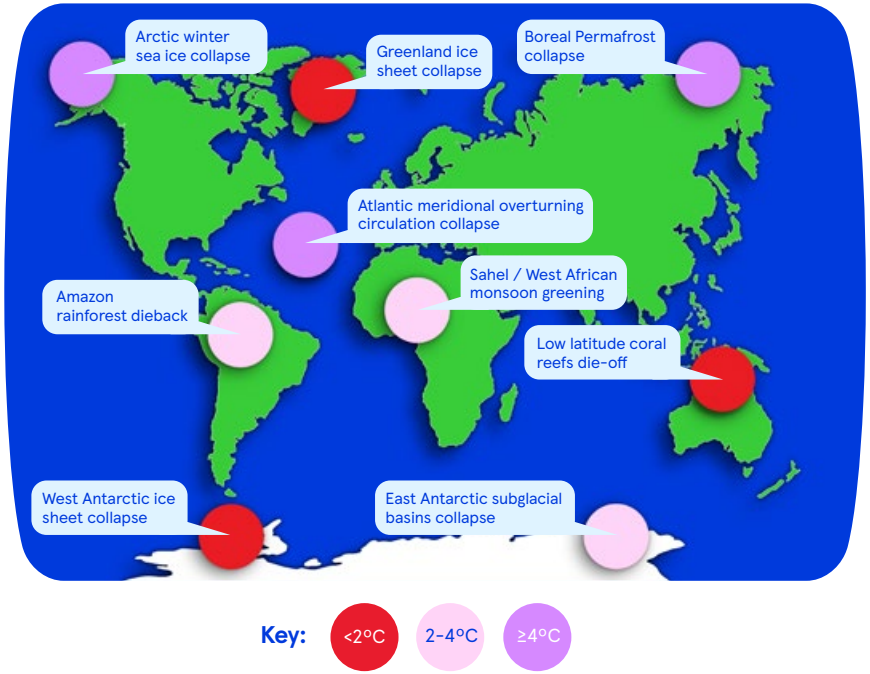
Overview of the scenarios considered

We considered a range of climate effects, and how the Scheme's assets and liabilities could be impacted. These scenarios were:

- Tipping points already reached or close to being reached
- Less than 2 degrees warming
- 2 degrees warming is breached
- 3 degrees warming

We explored the potential impacts of each of these scenarios, using qualitative analysis rather than quantitative modelling. The key limitation of this approach is that the analysis is less prescriptive, however we felt that this allowed us to explore a broad range of impacts and outcomes in more detail than before.

Examples of climate tipping points



Footnote:
Data from Earth Commission / Globaïa. Temperature categories indicate the levels at which the tipping points are expected to be triggered.

A tipping point refers to a critical threshold in the climate system, beyond which a small additional change can lead to significant and often irreversible shifts in environmental conditions. Once crossed, these changes may accelerate further climate change through feedback loops, potentially leading to severe and unpredictable impacts.

Examples, such as those shown in the graphic above, include the melting of polar ice sheets, thawing of permafrost releasing methane, or disruption of ocean currents which are likely to escalate global warming. Tipping points are important in scenario analysis because they represent non-linear risks that could materially affect long-term economic and investment outcomes.

Output from the scenario analysis

Tipping points reached/close to being reached.

In this scenario, it is assumed that some tipping points have already been reached or are closer than previously estimated, meaning that major climate events may already be underway.

We considered the potential collapse of the Atlantic Meridional Overturning Circulation (AMOC) from rising sea levels from the melting of Greenland and West Antarctic ice sheets.

The AMOC is a major system of ocean currents that helps regulate the global climate by distributing heat between the equator and the poles. We learned that its collapse could severely disrupt the global economy and displace populations. While climate adaptation can address moderate sea level rises, it becomes ineffective if changes are more fundamental, for example once this AMOC tipping point is reached. Major disruption to the global economy could consequently impact investments and covenant, perhaps requiring a change in funding approach.

We also reviewed potential opportunities associated with positive tipping points. For instance, solar energy has now become the most cost-effective energy source in many countries, and electric vehicle usage is increasing rapidly. As these technologies develop, they may reach tipping points where economic factors accelerate their adoption. There are possibilities to invest in such technologies to support their progress toward wider implementation and further development, then benefit as they become the leading technology. This may result in a larger part of the investment strategy being invested towards climate solutions.

Warming remains below 2 degrees

We evaluated the scenario where temperature increases exceed 1.5 degrees but remain below 2 degrees.

Whilst global efforts are underway to achieve Net Zero and to maintain global temperature increases well below 2 degrees, these efforts may not be sufficient to reach this ambition by 2050. This is likely to mean higher temperature rises by 2100 than 1.5 degrees, a largely accepted interpretation of the well below 2 degrees target. However, with a rapid transition and multiple positive tipping points reached across the world, it might be possible for temperatures to be limited to 1.7 degrees above pre-industrial levels.

This scenario has short-term risks for the assets and liabilities due to the speed of transition to a low-carbon economy, but this market volatility should reduce as more technology becomes embedded. We have considered appropriate liability hedging as part of our investment and funding strategies to protect the Scheme against the short to medium term volatility that could arise.

This scenario also has a wide range of opportunities over the short to medium term, in assets that are developing fast to meet the needs of a low carbon world.

While there are positive transition tipping points integral to this scenario, there are still significant risks of negative climate tipping points being reached and the cascade effects of these tipping points, or lack of policy action, leading to further warming and putting this scenario at risk. Too high a probability should not be assigned to this scenario, such that greater downsides of more significant warming are overlooked.

2 degrees warming threshold is breached

This scenario aligns with the likely outcome of nations not implementing more than the agreed Nationally Determined Contributions (NDCs). It is expected that transition risks are broadly the same as under the less than 2 degrees scenario over the short to medium term, as the world continues (albeit more slowly) towards a low carbon economy. However, positive adaptation opportunities do exist as does the potential for stranded assets.

An increase in severe weather, and rising sea levels caused by melting ice, could cause more flooding in the UK, leading to property damage and business disruption, especially where supply chain infrastructure is also affected. As well as having an impact on the Scheme directly, these events are likely to have implications for the company, with the flooding of Tesco properties and supply chain disruption impacting sales and as a result, the strength of the Scheme covenant.

In this scenario, adaptation of infrastructure requires investment if climate impacts are to be addressed. This presents opportunities for investors, especially over the medium term. Assets may experience volatility over the short and medium term as well as negative impacts from physical climate risks. The cost of providing pensions may reduce over the longer term if the impacts of climate change have a negative impact on life expectancy in the UK.

3 degrees of warming threshold is breached

This temperature increase may occur if the Net Zero transition is not met within 40 to 50 years, or potentially sooner if key tipping points are reached. In this scenario it is likely that a large number of tipping points would be breached, leading to catastrophic impacts on the environment and therefore the economy.

Sea-level rises would be unmanageable in some areas, food and water shortages could increase risk to human life in many parts of the world including more temperate regions. This would likely lead to significant migration and potentially armed conflict as protectionist policies are followed by governments. In the short term, the Scheme may see little immediate impact, but climate change could have increasingly significant physical effects over the medium and long term.

Asset repricing could occur more frequently, which could lead to further funding being sought from Tesco. This may be at a time when this is least affordable for Tesco due to the impact of climate on Tesco properties, as well as the pressure on the retail sector resulting from broader economic downturn and supply chain failure.

This scenario is likely to see increases in mortality, which could reduce the Scheme liabilities. However, this reduction is likely to be offset by high inflation expected under such a scenario.

Conclusions from the scenario analysis discussions

We noted that higher temperature scenarios reduced the resilience of our funding and investment strategies – in particular, where the 2 degrees or 3 degrees warming is breached.

At the same time the food retail industry could be significantly impacted, through the impact of physical climate risk (e.g. flooding of or storm damage to Tesco stores) as well as the secondary order impact of supply chain and infrastructure being affected.

Next steps

We have already taken steps to mitigate climate-related risk within the Scheme. This includes our ambition to reach Net Zero by 2050, signing up to a number of wider investor initiatives and commitments, actively engaging with investments, and considering climate change within investment decisions (as detailed elsewhere in this report).

We agreed to consider next steps following on from the scenarios discussion in June 2025, taking into account broader developments in the market.

We discussed how we could address the risks presented including:

- Looking for climate positive investment opportunities where the potential for returns aligns with our strategy, and our time horizons.
- The need to ensure liquidity available to allow us to consider private markets opportunities where they arise (given opportunities are likely to be within private markets).
- Investment decisions need to be able to consider the potential climate impact as well as risk and return characteristics, and the Scheme investment framework needs to enable this.
- The funding framework and discussions need to continue to take account of climate risk and uncertainty.
- We should continue to monitor the potential impacts on Tesco and the actions it is taking to manage climate risks, to understand the potential risks to future covenant support.
- Regular training to ensure we continue to keep up to date on climate change risks and opportunities
- We should continue to engage with Tesco to understand the measures being taken to manage climate risks and opportunities.

Overall, it was noted that the impact on Tesco's ability to support the Scheme in the short term, was considered to be modest in most scenarios, but the impact could vary and could be more significant over the medium to longer term.

These are set out below alongside progress to date:

- **Progress enhancements in climate reporting and analysis, to help with decision making and tracking progress** – this was considered within various exercises during the year, for example within the climate metrics and targets review in March 2026.
- **Consider how to broaden the investable universe by considering the risk/ return of the widest opportunity set, to include climate solutions, nature-based investing, new/emerging industries and private market assets** – the IRC has received updates from Schroders on a range of opportunities, with a view to including some of the best ideas in the portfolio where there is an investment case to do so.
- **Increase focus on physical risks to help provide clear and concise reporting and bring into ongoing decision making** – the IRC received an update from Schroders on physical climate risks in its listed asset portfolios in June 2026 to better understand how physical climate risk is assessed and managed within the Scheme's assets.
- **Review our current climate ambitions to ensure they remain appropriate** – the RIC reviewed the Scheme's specific climate ambitions in September 2025, with a further review expected later in 2026.
- **Consider what best in class activity is, to ensure we continue to learn and incorporate into ongoing actions** – the RIC considered an assessment of the Scheme using LCP's RI framework, to review the overall approach taken and determine Scheme objectives for the next Scheme year.

To ensure we continue to make a difference, we will evolve the actions taken, including any changes to the investment strategy over time. Ongoing engagement with the Tesco Group will also be key to understanding how climate-related risk develops for Tesco.

Assessing investments

Our assessments

We expect our views on responsible investment to be reflected across the Scheme's whole investment portfolio, where appropriate and possible. We set objectives for Schroders every year. These objectives include the requirement to support us in managing the climate-related risks of the Scheme. Schroders is assessed against these objectives every year.

Assessments by Schroders

Schroders' role is to help us invest the Scheme's money to get the returns needed to pay pensions and other benefits to our members. This includes making new investments for the Scheme and helping us consider the impacts on asset allocation over time. During the Scheme year, Schroders, acting on our behalf, considered the RI impact of all potential new investments, as well as the ongoing impact of existing investments.

Schroders uses a principles-based approach to integrating RI into its investment processes. This means that each investment team at Schroders is required to outline how it uses responsible investment principles in its investment process, but has the flexibility in how they integrate these principles. The objective is to ensure that the investment teams are considering ESG risks and opportunities, including climate related ones, that are material to their investments to support risk-adjusted returns.

This approach to ESG integration is reviewed once every two years by the central Schroders Sustainable Investment team. This team is also responsible for the development of several proprietary tools that assess ESG, including climate-related, risks and opportunities of companies. Working collaboratively with investors, a sub-team is responsible for engaging directly with companies and third-party managers.

Schroders has developed multiple proprietary tools to support the integration of ESG risks and opportunities into the investment process. Examples include:

1. SustainEx, which helps to identify whether a company could be exposed to "hidden" costs or benefits resulting from its negative or positive externalities.
2. Context, which provides investment teams with insights into how a company is interacting with its stakeholders, providing greater insight into a company's business model, as well as helping to identify areas for potential engagement.
3. NatCapEx, which follows a similar principle to SustainEx, but specifically for natural capital risks and opportunities.

In making its assessment of investments within **public market**s, Schroders considers the following climate related criteria:

- Carbon intensity and Net Zero alignment
- Management of climate risk and transition opportunities
- Identification of areas for improvement via decarbonisation or engagement plans

The Scheme's **private markets** investments span a wide range of sectors, from private equity to infrastructure, private credit, and property.

Emissions data quality and coverage varies considerably across these asset classes for a number of reasons, including the need for the industry to better develop methods of alignment and monitoring. This is something we discuss, challenge, and monitor Schroders' progress on, but it is a consequence of the nature of the asset classes.

The Scheme made no new **property** investments in this scheme year but ESG factors, including climate, were incorporated into the management of the existing property portfolio. This includes:

- Engagement with third-party property managers to identify opportunities to reduce energy consumption, associated Greenhouse Gas (GHG) emissions, and associated costs.
- Review of Energy Performance Certificate (EPC) data in view of regulation and stakeholder minimum expectations, typically aligned to Schroders' minimum EPC "B" standard.

More widely, we are focused on making sure the emissions data we report evolves and improves over time. Schroders aims to support this by encouraging the availability of meaningful climate-related information in the private markets by engaging with the underlying managers to share our expectations, and by sharing best practice to support them in obtaining this information.

04 Risk Management

We believe that climate change is a material financial risk to the Scheme which, alongside other ESG considerations, is likely to influence the risk and return of the Scheme's investments over the long term.

Identifying and assessing climate-related risks and opportunities.

We use three main frameworks and policies to govern how we identify and assess climate-related risks and opportunities. These are the:

RI policy	Climate-related risks and opportunities register	Trustee risk management framework/wider risk register
Sets out how we manage climate-related risks and opportunities	Where we document key climate risks and opportunities	Sets out the overall risks of the Scheme
Sets out stewardship priorities, which includes climate change	Used to review and assess risks and opportunities	Embeds climate risks with the Scheme's other key risks

We review the processes and governance framework we have in place for identifying, assessing, monitoring and managing climate-related risks and opportunities on an annual basis to make sure they remain appropriate and useful. Further details on current processes and frameworks, including developments over the Scheme year, are set out on the following page.

Responsible Investment Policy

The RI policy sets out our framework for identifying, assessing, monitoring, and managing climate-related risks and opportunities. We expect the Scheme's principal investment manager, Schroders, to consider this policy and act in accordance with it when managing the Scheme's assets directly, as well as when they appoint and review other external managers on our behalf.

The RI policy states that we expect Schroders, or our other external managers, to engage companies on financially significant ESG risks with the aim of only considering divesting where the company fails to engage with our long-term goals, making the long-term risk unacceptable. However, we also acknowledge that ESG factors may be significant enough to justify our managers taking a decision to divest from an asset immediately, rather than waiting to undertake a longer-term programme of engagement.

The RI policy covers our specific policies in relation to climate and stewardship, and sets out our stewardship priorities, which are:

- **Environmental** issues, including climate change and biodiversity loss.
- **Social** issues, including human rights, diversity and inclusion and fair and decent treatment for workers.
- **Governance** issues, including business ethics and corporate transparency.

The RI policy reflects our ambition for the Scheme's assets to reach Net Zero carbon emissions by 2050. More detail on this ambition is set out on **page 24** of this report.

We review our RI policy every year. Reviews for the Scheme year to 31 March 2026 took place in September 2025. The key changes to the RI policy were:

- Updates to the definition of stewardship to reflect the UK Stewardship Code 2026.
- Updates to make it clearer how our policies are implemented across asset classes and managers.
- Updates to terms relating to "external managers" to make it clearer which party was being referred to.
- Formalising the process and frequency for Schroders writing to the Scheme's external managers regarding our priorities.

Climate-related risks and opportunities (CRRO) register

Our CRRO register sets out a range of physical and transition risks identified for the Scheme and assesses them in the context of Scheme-specific time horizons.

Based on the advice received from our advisers, and the tools we use to identify and assess the Scheme's climate-related risks and opportunities, we rate the risks and opportunities according to their potential impact and how likely they are to occur. This allows us to compare and prioritise which risks could be the most material. For example, the key risks that we consider as having the most significant potential impact include:

- Market-wide climate-related risks (eg market instability, caused by market mispricing or the mis-assessment of climate-related risks).
- Regulatory risk (eg changes in Government response and regulatory policy, which affects global markets).
- Individual risks associated with each of the assets we invest in.

Key controls that are currently in place and next steps that can be taken to mitigate risks and pursue opportunities are included in the CRRO register.

The RIC reviewed and updated the CRRO register during the year and shared it with us for review. A review of the CRRO register takes place at least once every year.

We also use the CRRO register to consider how the identified climate-related risks could impact our risk appetite, by incorporating these into the Scheme's wider risk management framework.

Following the adoption of narrative-based climate scenarios, we updated the CRRO register in October 2025 to reflect the scenarios, and the ways in which they would be integrated into our decision making. This included specific references to investment risks and opportunities related to tipping points, as well as the ongoing consideration of potential impacts on funding and the covenant (for example, in relation to physical climate risks).

Following the collection of this year's climate metrics and the assessment of progress towards targets, the impact of these on key risks within the CRRO register was considered in March 2026. This review resulted in no changes to the high-level risks and opportunities.

We also updated the CRRO register in July 2026 to reflect further detail on physical risk impacts and risk time horizons.

Monitoring within the Scheme's wider risk management framework

As well as maintaining the CRRO register, we have embedded climate-related risks and opportunities within our wider risk management framework. The Tesco Pensions team acts as the risk management function for the Scheme and proposes movements in risk for the risks relevant to the given meeting. This includes the consideration of risks to the Scheme's funding and covenant.

Climate-related risks are also reflected in our risk register that sits within the wider risk management framework.

Risks within this wider risk management framework are assessed according to impact and likelihood, and an overall risk score is assigned, with mitigating actions and next steps identified to make sure risks are managed and controlled.

- Each meeting agenda item is reviewed in the context of its key climate-related and other material risks. At the end of each meeting, a separate discussion also considers whether there have been any material changes to the gross and net ratings of each relevant risk, so that risk assessments are fully integrated into our governance model.
- Significant risks identified for the Scheme include the risk of returns from assets being affected by climate factors, as well as the impact on asset returns of reputational factors associated with failing to consider ESG factors. Examples of management controls in place to mitigate these key risks include:
  - Making sure strong governance processes are in place.
  - An ambition for the Scheme's assets to reach Net Zero carbon emissions by 2050 and its resultant actions.
  - Engagement with Schroders, to understand and monitor how ESG factors are integrated into its investment processes and how Schroders consider our stewardship priorities.

These, as well as the wider controls in place for the Scheme, provide us with comfort around how key risks are being managed. We use a combination of qualitative risk assessment measures such as our climate-scenario analysis, as well as climate metrics to assess the potential impact of various climate-related risks.

Monitoring climate-related metrics and targets

The metrics and targets that we use to monitor climate-related risks and opportunities for the Scheme are set out in detail in the **metrics and targets section** of this report. The setting and assessment of targets are embedded in our governance, strategy, and risk management processes. For example, the Scheme's metrics and targets are reviewed every year, and we consider the measurement of progress against the Scheme's targets every year. This was considered in detail by the RIC in March 2026. The Scheme's CRRO register references how the Scheme's targets are used as controls and as indicators of next steps for the mitigation of climate-related risks and for the consideration of climate-related opportunities. Our other service providers are made aware of the Scheme's targets as necessary.

Managing climate-related risks and opportunities

Having identified and assessed the climate-related risks and opportunities for the Scheme, we take steps to manage and assess these as follows:

Targets and Metrics	Strategy and Manager	Tesco	Stewardship
• Through our ambition for the Scheme's assets to have Net Zero carbon emissions by 2050. • Through setting climate targets to enable us to monitor our progress towards our Net Zero ambition. • By embedding the monitoring of those targets into our governance, strategy, and risk management processes. • By monitoring metrics for measuring and assessing climate-related risks and opportunities. • By making sure all data and metrics are sourced from reputable providers.	• By engaging with our investment adviser and our legal adviser, formally each quarter at meetings and informally between meetings. • By expecting Schroders and the Scheme's other external managers to incorporate climate-related risks and opportunities as part of their investment processes.	• By receiving updates on Tesco at Trustee meetings, including one meeting each year that is solely focused on covenant. • Reviewing covenant metrics that consider the impact of climate change on Tesco, and the mitigations Tesco has in place, at least once a year.	• By exercising stewardship through Schroders and by actively reviewing stewardship activity carried out on the Scheme's behalf at quarterly meetings. • These reviews are completed to make sure the Scheme's investment managers meet our expectations, or to consider escalation if required.

Schroders' approach to managing climate-related risks and opportunities

We expect Schroders to manage climate-related risks and opportunities across the Scheme's investments. This section covers the processes Schroders uses as well as some case studies, which provide more detail on the type of work Schroders did across asset classes this year in this report.

Investment appraisal, monitoring, and engagement

Climate-related risks and opportunities, and their impact, are considered before a new investment is made, and then on an ongoing basis. Engagement with the investments and their managers is crucial in recognising and reducing any risks.

The Schroders RI team works with investment managers and data providers to understand the extent to which investments are aligned with the Scheme's Net Zero ambition, considering both the portfolio's current exposure to greenhouse gas emissions and the extent to which investments are decarbonising. This helps us and Schroders understand where the Scheme has exposures to more emission-intensive entities, how the investments compare with sector peers, and identify and prioritise engagement activity.

The Schroders team also uses a proprietary ESG model called SustainEx to evaluate the Scheme's public market assets. SustainEx provides Schroders' investment teams with an estimate of both the positive and negative externalities that companies and countries may create for society and the environment. This gives the team a comparative view of a company's risk profile and leads to more sustainable and informed investment decisions. Schroders also has a model called NatCapEx, which follows a similar principle to SustainEx, but specifically for Natural Capital risks and opportunities. Schroders reported on analysis from SustainEx at each RIC meeting and provided analysis from NatCapEx for nature specific projects.

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Schroders also uses a system called Context, which provides its investment teams with insights into how a company is interacting with its stakeholders, providing greater insight into a company's business model, as well as helping to identify areas for potential engagement.

Throughout the Scheme year, Schroders reported back to us at quarterly RIC meetings and provided updates on any progress made or outcomes achieved as part of its reporting on engagement activity. This reporting gives us insights on the latest activity undertaken as well as an opportunity to challenge Schroders on the direction of the portfolio, so that it aligns with our policies and beliefs.

Climate-related opportunities

Both we and Schroders are mindful of the opportunities represented by a transition to a low-carbon economy. These include the potential for new investment in climate solutions and the potential to protect value or enhance returns through engagement with existing assets.

The Scheme has exposure to climate solutions in both public and private markets, including investments in energy efficiency related technologies and systems and renewable energy infrastructure.

In November 2025 we, with help from LCP and Schroders, reviewed investable themes that align with our long-term investment and sustainability objectives. The conclusion at the time of the review was that investments in private markets tended to align better with the Scheme's objectives. These opportunities will be considered further over time, whilst taking account of the Scheme's strategic objectives and liquidity needs.

We agreed we would look to increase investment in positive climate solutions by setting an ambition to invest 5% of Scheme assets by 2030, where this could be done in line with our fiduciary duties. Since the review in November 2025, we have been progressing, with the help of Schroders, by considering investment opportunities in this area and reviewing how they would fit in with the wider investment strategy.

Reporting and updates from Schroders

Schroders reports back and provides updates at Trustee meetings and to various sub-committees as relevant. These reports include updates on ESG activities and climate-related risks and opportunities.

Reporting for the Scheme year covered:

- The engagement activity that Schroders carried out.
- A deep dive on private market investments and their data quality and alignment.
- Updates on the latest developments in climate metric disclosures.
- An overview of Schroders' stewardship priorities and how they relate to the Scheme's priorities.

Schroders also contributed to our consideration of key risks within the portfolio.

Considering divestment

We expect Schroders or other external managers to engage companies on financially significant ESG risks with the aim of only divesting if a company fails to engage with our long-term goals, making the long-term risk unacceptable. However, we also acknowledge that ESG factors may be significant enough to justify our managers taking a decision to divest from an asset immediately, rather than waiting to undertake a longer-term program of engagement.

For the directly managed investments, including corporate fixed income, equity and property portfolios, ESG factors may be considered as part of a wider set of concerns, to reach a decision to sell, alongside other financially material factors.

Schroders will consider divestment from an investment in the circumstances where a portfolio company or fund manager does not engage with Schroders on the management of climate-related risks and opportunities and their impact, or if the company or fund does not demonstrate progress. For private market assets or significant external managers, before divestment takes place, there would be a series of engagements, as part of the regular quarterly monitoring from the Schroders team.

Schroders engaged with us on the rationale for any decisions as part of regular monitoring at the IRC and RIC meetings this year.

Engagement and other stewardship activities

We invest responsibly in delivering our objective to pay the right benefit to the right person at the right time and view stewardship as an important part of this. Our specific policies on stewardship are included within our wider RI policy.

Over the year, we considered our stewardship processes in detail, including processes for monitoring external investment managers through reporting from Schroders. We also received in depth training on Schroders' stewardship and engagement procedures to ensure they align with our RI policy.

We aim to be a responsible steward of our assets and to achieve the best long-term return on the Scheme's assets while managing investment risks and taking account of financially relevant factors. As part of this, we consider the impact of ESG factors, including climate change, on investments. Where we can, and in a manner consistent with our legal obligations, we consider the impact of our investment practices on the economy, society, and the environment.

Our approach to stewardship includes:

- Active ownership, including engaging with the companies we invest in and exercising voting rights and responsibilities.
- Decision-making that is consistent with our RI policy.
- Working collectively with others to advocate for policies that support long-term value creation, where relevant.

More information on our stewardship activities can be found in our Implementation Statement and stewardship reporting. We have also added a number of case studies in this report, to provide more detail on the kind of activities that were carried out this year.

05 Metrics and targets

To help understand the Scheme's exposure to climate risks and to help highlight climate opportunities, we continue, where possible, to collect and review climate metrics for the Scheme assets.

Consistent with last year, we chose the metrics set out in the table below as they provide a good indication of the Scheme's exposure to climate-related risks and opportunities and are consistent with the statutory guidance.

We also chose to include an additional optional emissions metric, the Weighted Average Carbon Intensity (WACI), as we consider this a useful additional insight into the Scheme's emissions. It is also used as the measure for setting one of the Net Zero ambitions.

We receive an annual update on our climate metrics from our advisers, LCP, to support our understanding and to assist with decisions over the choice of metrics. This includes how each metric is calculated and the context in which it should be used. We review our metrics and the targets we have set at least once each year. We have considered the methodology and approach across asset classes and are comfortable that it remains appropriate.

In this report, 2024 emissions metrics have been restated for infrastructure, private credit and LDI due to restatements or corrections of underlying portfolio data. The 2024 coverage data for indirect property has also been restated to reflect a change in methodology for one of the underlying funds. We have considered this and are comfortable that the corrections are appropriate, meaning that a fair year on year comparison is included in this report.

We have combined the collated emissions metrics across different asset classes where it was meaningful to do so, and where methodologies were aligned.

Scope of assets for climate metrics

Asset classes that were "in scope" for collecting climate metrics for the Scheme year were:

- Public Equities
- Corporate Fixed Income
- Property
- Infrastructure
- Private Credit
- Sovereign fixed income and LDI

We reviewed the assets that were in-scope for collecting climate metrics and made no changes this year.

Category	Metric(s)	Scope 1&2	Scope 3
Absolute emissions:	Total greenhouse gas emissions	✓	✓
Emissions intensity:	Carbon footprint	✓	Some coverage
Emissions intensity:	Weighted Average Carbon intensity (WACI)	✓	Some coverage
Additional climate metric:	Data quality and coverage	✓	Some coverage
Portfolio alignment:	Alignment with Net Zero by 2050 goals	N/A	N/A

Note: Further details on these metrics, how they are calculated, and why they were chosen is in Appendix 2.

Our targets

Net Zero by no later than 2050

Our ambition is for the Scheme's assets to have Net Zero carbon emissions by no later than 2050. To help us to achieve this, we've set some interim targets for 2030:

70% of assets aligning to a Net Zero 2050 target

Our ambition is for 70% of the Scheme's 'in scope' assets to have realistic plans in place for reaching Net Zero by no later than 2050*

50% reduction in carbon emissions

By 2030 our ambition is to have reduced the Weighted Average Carbon Intensity level of 'in scope' assets in 2019 by half

Engaging with 90% of our investments

Our ambition is to engage with at least 70% of our investments over the next two years, to encourage them to align to Net Zero. This figure will rise to 90% by 2030*

*This is a very high level summary of our targets and doesn't capture all of the details, which can be found in this report.

Our ambition is for the Scheme's assets to have Net Zero carbon emissions by 2050.

To support this ambition, we have:

- Joined the Institutional Investors Group on Climate Change ("IIGCC")
- Signed up to the Paris Aligned Investment Initiative ("PAII") Net Zero Asset Owner Commitment (as quoted)
- Joined the United Nations Framework Convention on Climate Change ("UNFCCC") Race to Zero campaign

To support our ambition for the Scheme's assets to have Net Zero carbon emissions by 2050, we have set the following targets:

- An alignment target
- An engagement target
- An emissions reduction target
- A climate solutions target

Details of the targets are set out in more detail in the following sections. The alignment target is our selected target for the purposes of TCFD reporting.

We reviewed our targets in the Scheme year, all of which were retained.

In scope asset classes for Net Zero targets are as follows:

- In scope for engagement and alignment targets means: listed equity, listed corporate fixed income, infrastructure, property (including Project Gold)
- In scope for emissions target means: public equity and corporate fixed income

Performance against targets

We continue to track our progress against our Net Zero targets:

- Alignment target: 61% of in scope Scheme assets are aligned, aligning or committed to align compared to a target of 70% to be aligned or aligning by 2030. For this metric, in scope means listed equity, listed corporate fixed income, infrastructure and property assets.
- Engagement target: Over 80% of financed emissions are aligned or have been engaged with on alignment over the past 24 months against a target of 70%.
- Emissions reduction target: We have an ambition to reduce emissions (as measured by WACI) by 50% by 2030, using a base year of 2019, and monitoring the equity and fixed income sub-portfolios. This has been achieved for the equity portfolio, but corporate fixed income is marginally behind target; the aggregate portfolio is therefore currently meeting the target. We recognise that there may be volatility in the measurement against this target driven by economic cycles and stock selection.
- Climate solutions target: 1.5% of assets were invested in renewable infrastructure funds as at 31 December 2025. We have set an ambition to invest 5% of Scheme assets in positive climate solutions by 2030.

Data coverage and quality

We have reported emissions data for 84% of assets this year.

There were improvements in data coverage within private markets, following several underlying managers and positions being able to provide emissions data for the first time. In particular, indirect property and infrastructure saw the largest increases in coverage and quality. However, there has been a small decrease in coverage in listed markets, driven by individual company level selection and one major equity position falling out of the reported data category within MSCI's dataset. Within the corporate bond portfolio, the higher allocation to emerging markets, where coverage is generally lower, has contributed to lower coverage overall.

We collected data for the private equity mandate. This showed an increase in coverage from the previous year, when this data was collected for the first time. However, overall coverage and quality of data remains poor. We have therefore chosen not to report this data, as normalising a low coverage portfolio could provide a misleading picture. Improving the coverage and quality of this data remains an engagement priority for us and Schroders within unlisted markets.

Alignment and engagement

Alignment and engagement metrics are now included for all assets apart from private equity and alternatives. Investments aligning or aligned with Net Zero have increased from 35% to 38%, however overall investments that are aligning, aligned or committed to align fell slightly from 62% to 61%. This was driven by a private credit fund formerly designated as "committed to align" being wound down and ceasing to report emissions.

Emissions

There has been a general trend in improvement of emissions figures within private markets, where the carbon footprint has reduced across all asset classes, except infrastructure. However, there have been increases within the listed markets due to portfolio changes.

- Within the corporate fixed income portfolio, individual stock selection decisions, particularly relating to US and high yield assets, increased the carbon footprint. We considered this with Schroders and were comfortable with the overall investment rationale for the investment decisions that drove this change. We continue to recognise the importance of engaging with higher emitting companies to encourage improvements in their practices for real world impact.
- Increases in emissions within the infrastructure portfolio were driven by improved data coverage, with new managers reporting for the first time holding particularly high emitting companies. This improved data will allow Schroders to focus their engagement efforts on higher risk areas within the portfolio.
- Within private credit, an increase in reported emissions and a corresponding reduced reliance on estimates has resulted in reductions in Scope 1 and 2 emissions. Positively, for managers reporting data in both 2024 and 2025, Scope 1 and 2 emissions have reduced year on year.

Key priorities for the year ahead include:

- **Engagement**: Engagement and the activities that Schroders undertake on engagement on our behalf remain a key lever for us. We will identify the investments we intend to engage with on Net Zero and carry out our engagement actions in line with agreed policies. For the next scheme year, this includes a focus on improving alignment of private market assets to Net Zero and improvement of data coverage on emerging market debt and high yield bonds.
- **Data coverage**: Data quality and coverage is improving over time but there are certain areas where the coverage is still below expectations. An area of focus is improving coverage in private credit and private equity assets.
- **Climate solutions**: We are working with Schroders to assess opportunities in this area as part of the broader investment strategy.
- **Policies and Beliefs**: We will review our RI policy and RI beliefs every year and make sure they remain appropriate, including further consideration of sub-themes that fall within each of our stewardship beliefs. The Scheme's targets will be reviewed and adapted (where required) to reflect changes in the Scheme's investment strategy and wider developments.
- **Reporting and analysis**: we plan to progress enhancements in climate reporting and analysis, to help with decision making and tracking progress. This will also include an increased focus on physical climate risks.

Portfolio alignment

Alignment and engagement

To assess whether investments are aligned with our Net Zero target, Schroders (on our behalf) has assessed each of the Scheme's assets against Schroders' proprietary Net Zero Alignment Framework **(see Appendix 2)**.

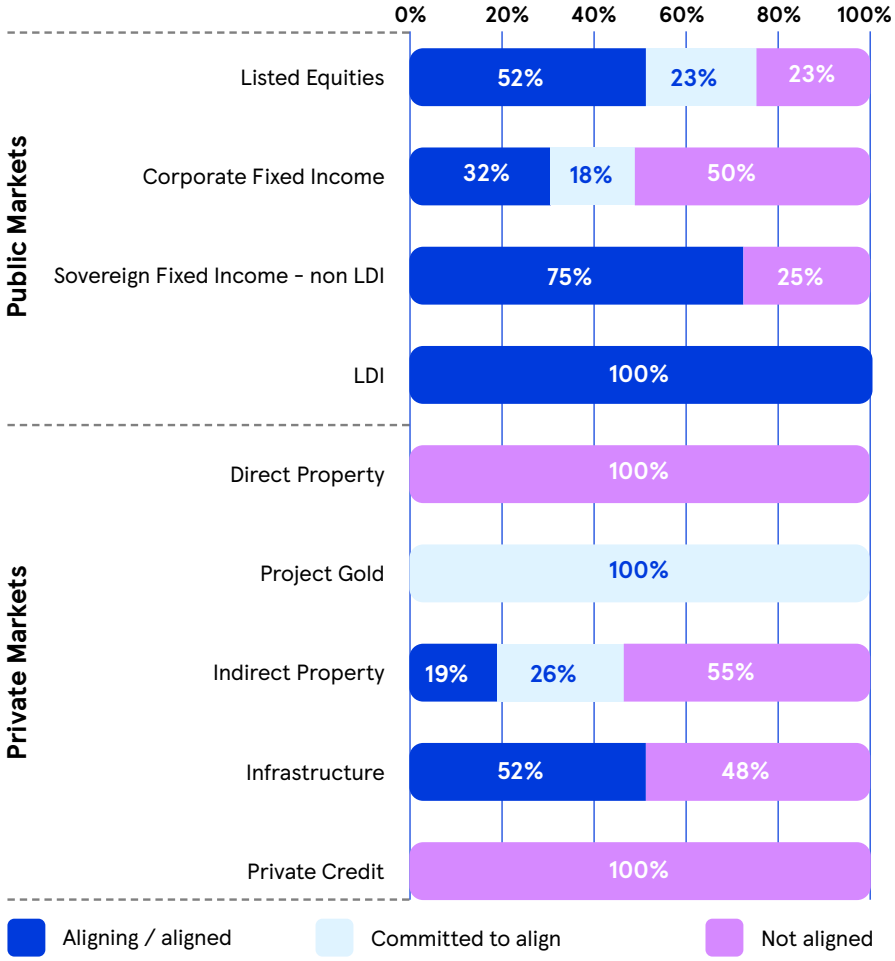
For public markets, the proportion of companies viewed as "aligned" or better has remained broadly unchanged, showing limited progress towards our goal of 70% by 2030, with equity holdings closer to target than fixed income. We recognise that progress may be non-linear and remains focused on working with Schroders to increase alignment towards the target.

For private markets, the alignment categorisation has varied across asset classes since last year, with improvement across infrastructure and indirect property associated with improved reporting.

There was a deterioration in the proportion of the private credit portfolio designated as aligned or aligning as an underlying fund previously designated as "committed to align" is being wound down and has stopped reporting emissions. This year, however, there was an increase in companies "displaying awareness" of Net Zero, which constitutes some progress, albeit slower than hoped for. Private credit remains a focus area for engagement.

A large proportion of indirect property funds are not aligned. Schroders continues to engage with the managers of these funds to improve this metric, focusing on longer term hold assets.

LDI is categorised as "aligned" as it comprises holdings of UK government bonds and the UK has a Net Zero target written into law.



Alignment target

We have set a target for 70% of the in scope assets (listed equities, corporate fixed income and property and infrastructure) to be "aligning or better" by 2030.

Achieving the target is expected to help manage climate-related risks to the Scheme by reducing exposure to climate transition risks in the short-term and reducing longer-term systemic risks from the physical effects of climate change. This will help support collective action towards achieving Net Zero ambitions. This target is revisited each year to make sure it remains appropriate. This year, we decided to keep the current target, but noted some of the market trends of companies revising targets as a factor to consider in future reviews.

For 2025, Schroders has estimated that 38% of the assets within scope for the target are classified as "aligning or aligned" and a further 23% have taken steps toward this status in the "committed to align" category. These figures differ slightly from the previous year as while "aligning or better" increased from 35% to 38%, the combined picture of "aligning or better" plus "committed to align" decreased marginally from 62% to 61%.

Although relatively limited improvement in the "aligning or better" metric has been achieved this Scheme year, we remain committed to encouraging underlying companies and investments to move towards Net Zero.

In the coming years, we, with the support of Schroders, will focus on making progress in this area as we are looking for meaningful strides towards our goal for 2030 to be made. Areas that Schroders will be focusing on in the next year to improve this metric include indirect property and private credit, where alignment is weak. We agreed to retain the existing target for the Scheme.

Two private markets managers on Schroders' priority engagement list last year, having been large holdings that didn't report emissions, have been able to report emissions this year and are now classified as "displaying awareness". It is positive to see managers being targeted for engagement in this area, however we would like to see further and continued progress towards the aligned and aligning categories.

Scheme level	Aligning or better (AUM%)	Committed to align (AUM%)	Not aligned (AUM%)
Baseline (2019)	32	26	42
December 2024	35	27	38
December 2025	38	23	39

Case study

This case study reflects Schroders' engagement with a utilities company regarding alignment of capital expenditure

What was the issue?

Schroders has engaged with this company since 2009, with dialogue spanning renewable capacity expansion, climate transition planning, and governance of climate risks. This is a Climate Action 100+ focus company that plays a systemically important role in enabling the power sector's transition to Net Zero in its operating regions.

Engagements in 2025 took place primarily through the CA100+ framework, focusing on four priority areas: strategy and capital allocation, lobbying and policy engagement, just transition, and climate governance.



What actions did Schroders take?

Schroders has engaged on capital allocation discipline, with a focus on gas generation and gas distribution assets, asset lifetimes, and decarbonisation levers. In 2025, engagement focused on the updated corporate strategy and sought confirmation that it has no capital expenditure allocated to fossil fuel expansion. This was coupled with a strengthened strategic focus on renewable generation, electricity grids and distribution.

The company reaffirmed their long-term Net Zero commitment and provided clearer disclosure on the strategic role of networks in enabling electrification and system resilience.

What are the next steps?

Even with strong progress, engagement continues, recognising the need for continued and ongoing improvement. Schroders' priorities include further clarity on gas distribution decarbonisation pathways, continued improvement in just transition key performance indicators, and deeper engagement on board oversight, succession planning, and remuneration alignment with climate objectives.

Engagement target

We have set a target to **engage with investments covering at least 70% of financed emissions** in asset classes that are in scope to encourage alignment with a Net Zero by 2050 pathway, with this increasing to 90% by 2030, in specific asset classes. Engagement is tracked over a 24-month period. As this target is very closely linked to alignment, we are also comfortable that the Schroders and IIGCC alignment definitions are sufficiently similar to achieve the desired outcomes for the Scheme.

During the Scheme year, our target to engage with at least 70% of financed emissions was achieved, with Schroders engaging with 81% of financed emissions in the 24-month period to 31 December 2025. Engagements took place across all asset classes.

We use engagement as a key tool to progress towards our Net Zero ambition and it is a key focus in our RI policy. We expect our investment managers to consider stewardship as an integral part of their investment process. Schroders, on our behalf, carries out a range of activities to support this Net Zero focus.

In order to implement our responsible approach to investment, Schroders engaged with companies which the Scheme invests in, on matters including our key engagement priorities. There are several ways to engage with companies to reflect the ambition to transition to Net Zero, including discussions with senior management. The engagement activities cover the full range of asset classes in scope for target setting.

This includes engagement with companies the Scheme invests in as well as working with our property managers and tenants to improve their energy efficiency.

With support from our advisers and Schroders, we periodically consider the asset manager mandates we have set, in the context of climate-related risks and opportunities, and whether they should be amended to better reflect our climate-related goals.

External managers, other than Schroders, are used for some asset classes including LDI and private markets investments. Assessments of these managers include reviews of their climate practices and policies, how they incorporate climate-related factors into their investment process, and how effectively they manage climate-related risks and opportunities. We also consider the processes of Schroders, both on managing investments directly or overseeing other investment managers, and the extent to which it integrates climate-related risks and opportunities into its processes.

Full details of our approach to voting and engagement can be found in our RI policy and a summary of voting and engagement for the Scheme year is set out in our Implementation Statement.

The following engagement gives a flavour of the work Schroders has completed throughout the past Scheme year.

Case study

This case study covers Schroders' engagement with an indirect property manager on its decarbonisation strategy

What was the issue?

Indirect real estate investment presents challenges for climate target setting, as well as data collection. Responsibility for this area sits with third-party managers, and depending on sector (e.g. retail, logistics, office) and lease structures, energy use and decarbonisation may fall to occupiers rather than managers. As a result, Schroders' real estate team focuses engagement on encouraging third-party managers to strengthen Net Zero Carbon targets, data collection and disclosure practices.

This case study outlines Schroders' engagement with an underlying manager investing in hotel and tourist accommodation across Europe, to encourage improved climate practices.



What actions did Schroders take?

Schroders engaged on embedding decarbonisation into asset management and progress towards a Carbon Risk Real Estate Monitor (CRREM) 1.5°C-aligned Net Zero pathway. Given the indirect structure, discussions focused on energy and emissions data collection, verification, and aggregation; varying responsibilities across lease types; asset-level technical assessments to prioritise interventions; and how such assessments inform capex planning, including renewable energy sourcing.

The manager confirmed decarbonisation is central to its strategy, with initiatives such as photovoltaic installations, LED upgrades, and water-saving measures. While a formal CRREM-aligned pathway is not yet in place, interventions are already in motion to reduce emissions and energy use. Renewable electricity agreements now cover almost the entire portfolio, with three assets that were expected to transition by end-2025, currently being assessed for certification. The manager will continue reporting using its third-party providers, alongside requests for more granular asset-level data.

What are the next steps?

Schroders will identify if a CRREM or Science Based Targets initiative (SBTi) aligned target would be beneficial for risk management, and engage more directly on physical climate risk exposure, noting the manager has implemented a project to assess exposure but does not yet have results available to share.

The CRREM pathways provide a global standard for evaluating the carbon transition risk of buildings. They start with global carbon budgets consistent with the Paris Agreement and translate them into year-by-year trajectories for every type of building within their covered geographies.

Emissions data – quality and coverage

Data quality measures the proportion of the portfolio for which we have good quality climate data. Data reported by companies is seen as better than data that is estimated by models as described in **Appendix 2.**

Working with companies and external managers to improve the availability and quality of climate data continues to be a priority for us and Schroders, and data quality is expected to improve over time. To give an indication of trends, 2024 data is included to compare against the 2025 data.

Overall coverage within public markets remains high, although reported data has weakened slightly this year. Coverage within private markets remains more mixed, but has generally improved:

Data coverage for listed equities has fallen slightly, due to changes in the portfolio and a large holding falling out of the reported category in MSCI's dataset. For the corporate fixed income investments, coverage has reduced slightly due to individual stock selection and increased allocation to emerging markets. Where the coverage for listed portfolios is high, some volatility is expected and this is not a major cause for concern.

Within private markets, coverage is 100% for directly held property and Project Gold (a vehicle that holds an equity interest in around 80 Tesco properties), and there has been a significant increase in coverage for indirect property. This is largely due to funds that have not previously been included in the emissions data having now been redeemed by the Scheme, improving the coverage percentage of the remaining portfolio.

There has been an increase in Infrastructure coverage as managers have been able to report scope 1 & 2 and scope 3 separately (following Schroders' introduction of this requirement last year), as well as some managers reporting for the first time.

Data quality for private credit has continued to improve, with two managers providing emissions data for the first time. Schroders will continue to engage with managers on our behalf to increase the coverage level.

Sovereign fixed income data, including LDI, is lagged by 1-3 years, dependent on the country reporting. For this reason, the data quality has been categorised as estimated rather than reported.

More information on data and data collection can be found in **Appendix 2**.

Data quality and coverage		2024			2025		
		Data coverage	Data quality		Data coverage	Data quality	
			Reported	Estimated		Reported	Estimated
Listed Equities	Scopes 1 + 2	99%	97%	2%	97%	90%	7%
	Scope 3	100%	86%	14%	97%	84%	14%
Corporate Fixed Income	Scopes 1 + 2	85%	77%	7%	80%	67%	13%
	Scope 3	77%	52%	26%	77%	57%	20%
Direct Property	Scopes 1, 2 + 3	100%	32%	68%	100%	44%	56%
Project Gold	Scopes 1, 2 + 3	100%	100%	0%	100%	100%	0%
Indirect Property	Scopes 1, 2 + 3	73%	35%	37%	92%	68%	25%
Infrastructure	Scopes 1 + 2	86%	50%	36%	94%	74%	20%
	Scope 3	31%	16%	15%	47%	18%	29%
Private credit	Scopes 1 + 2	44%	16%	28%	52%	22%	31%
	Scope 3	43%	15%	28%	48%	17%	31%
Sovereign Fixed Income - non LDI	Scopes 1, 2 + 3	100%	0%	100%	100%	0%	100%
LDI	Scopes 1, 2 + 3	100%	0%	100%	100%	0%	100%

Note: LDI and other sovereign bonds have been included in this table. Data is reported by governments but lagged by 1-3 years so the data is categorised as estimated. Data coverage may not add to 100% as for some assets, no data is available from a reported source or to make an estimate from. Figures may not sum due to rounding.

Data coverage reflects carbon footprint coverage. For equity and fixed income, WACI coverage is broadly similar.

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Case study

This case study outlines Schroders' engagement with a global bank within the portfolio to improve emissions disclosure and transition planning



What was the issue?

As a globally systemic bank with a significant financing footprint, the bank is exposed to material climate transition risk through its financed emissions and lending activities. The credibility and transparency of its financed-emissions disclosures, risk governance, and alignment with Net Zero objectives are central to managing regulatory, reputational, and transition risks.

Schroders' engagements with the bank began in 2019, with recent discussions focusing on improving climate-related disclosures, strengthening governance frameworks and clarifying its approach to financed emissions, transition planning and sustainable finance.

What actions did Schroders take?

Schroders' engagement has focused on improving transparency and governance around the bank's financed emissions and climate strategy. Schroders' discussions with the bank have encouraged stronger TCFD-aligned reporting, clearer alignment of financing activities with the Paris Agreement, and improved disclosure and measurement of Scope 3 financed emissions.

Since Schroders has engaged on this topic, the bank has disclosed Scope 3 financed-emissions data and methodology, produced interim targets aligned with its Net Zero commitment and provided supplementary metrics to support analysis of climate risks in the banking sector.

Recent engagement has covered the bank's transition plan and sustainable finance framework, including plans to expand green and transition finance and strengthen risk culture, with the aim of mitigating controversy risk and supporting progress towards removal from climate-related watch lists.

What are the next steps?

Schroders will continue to focus on further improving the quality, consistency, and coverage of financed-emissions disclosures from the bank, alongside monitoring progress against interim targets.

Schroders will also assess the implementation of the bank's transition plan, governance enhancements, and sustainable finance framework, with a view to ensuring these translate into measurable reductions in financed emissions and strengthened management of climate-related risks.

Emissions metrics

In this section, we've included emissions metrics over the two years to 31 December 2025. Scheme assets being reported for emissions metrics include equities, corporate fixed income, property assets, infrastructure, and private credit.

Restatements

There were some restatements of emissions data for the previous year, within:

- **Infrastructure and private credit**, where, in both cases, Schroders identified that a manager had incorrectly reported emissions relating to the Scheme's holding in the Fund. Both restatements reduced emissions for the previous year.
- **LDI emissions per capita**, where a retrospective republishing of the UK emissions has now fed through to the data source used by us and Schroders.

The restated figures have been reflected in the metrics data and charts in this report.

Absolute Emissions

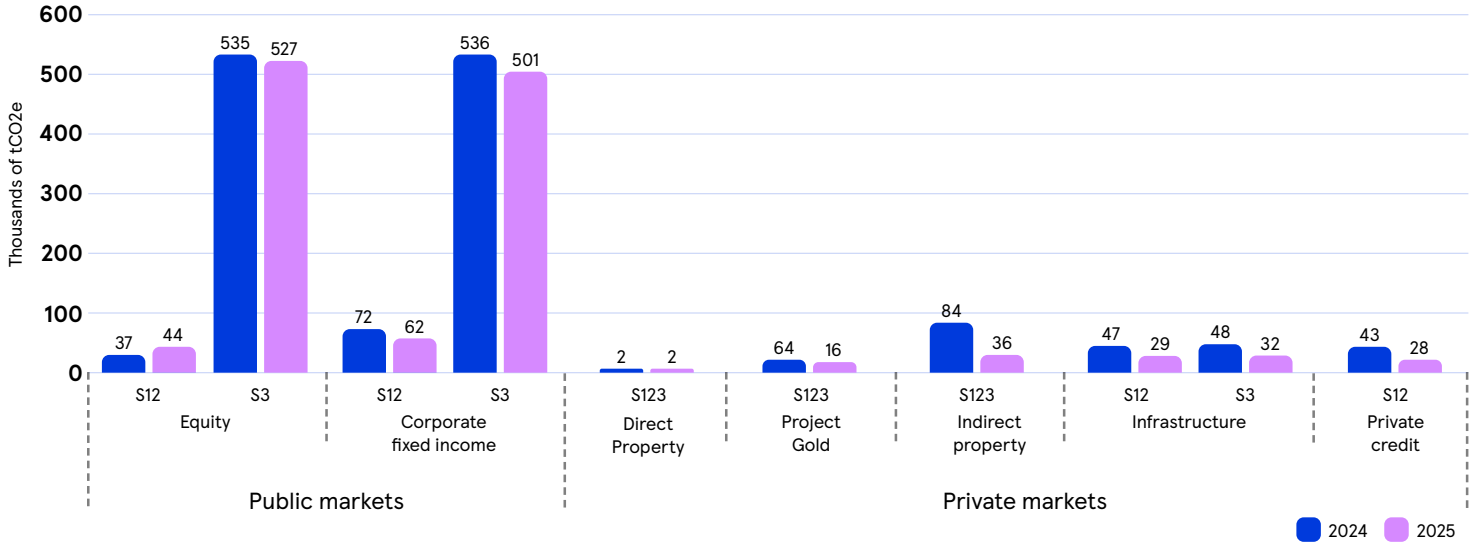
At an overall scheme level, it is difficult to monitor trends in the data over time with absolute emissions, given the data is impacted by changes in the allocation to in scope assets and increases in data coverage over time. Absolute emissions have also been normalised, using the part of the portfolio for which there is data, to estimate the total portfolio emissions.

Emissions for the full portfolios are reported in **Appendix 2**. We expect comparability to improve over time as climate metric reporting becomes more developed and there will be fewer changes to methodology.

For the majority of portfolios, absolute emissions have reduced or remained consistent over the year. Equity Scope 1&2 emissions are an exception, having increased slightly. Equities are managed as an active portfolio, and therefore some level of fluctuation year on year can be expected as portfolio holdings change.

For Project Gold, absolute emissions are trending down year-on-year which is positive. This is due to reduced energy use and lower natural gas emissions.

Scope 3 emissions for private credit have increased materially. This is largely driven by two particular companies within one of the manager funds beginning to report for the first time. These companies make up the majority of the manager's emissions. As this data is then normalised (ie a process where the emissions are scaled up to the size of the fund, to allow comparisons to be made) this increase is amplified given overall coverage is low (as any new data from a large emitter has a significant impact on normalised figures). This highlights the importance of Schroders' continued efforts to improve data quality and coverage. Given this distorted impact, Scope 3 emissions are not shown in the chart below, but are included in **Appendix 2**.



Carbon footprint

The carbon footprint metric measures tonnes of greenhouse gases emitted per £m invested.

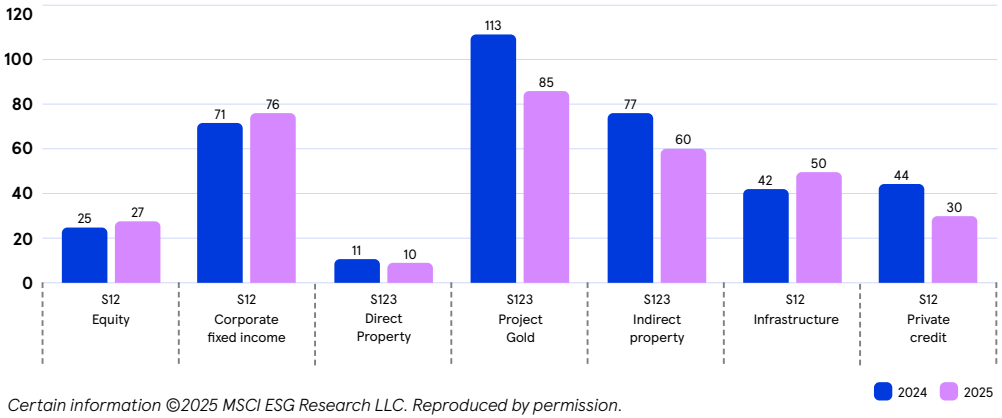
For listed equities this metric has increased slightly over the year, but some level of fluctuation year on year can be expected within an active portfolio. The corporate fixed income carbon footprint has increased due to individual stock selection decisions, particularly within the US for both investment grade and high yield portfolios. We considered this with Schroders and were comfortable with the overall investment rationale for these decisions. We continue to recognise the importance of engaging with higher emitting companies to encourage improvements in their practices for real world impact.

For private markets, carbon footprint has reduced across each asset class, except for infrastructure where improved coverage increased the emissions. The increase in emissions for infrastructure is largely due to managers reporting data that are reporting for the first time this year (ie improving portfolio coverage) being particularly high emitters. The restatement of 2024 emissions reduced reported emissions shown for the previous year.

Sovereign Fixed income Emissions Metrics

Greenhouse gas (GHG) emissions for government bonds and swaps are calculated on a different basis from the other asset classes, so cannot be compared with the other emissions figures shown. A full description of the methodology is included in **Appendix 2**.

Data in the table below is Scope 1 & 2 emissions only and the year refers to the year of reporting rather than the date of the underlying lagged emissions data.



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LDI portfolio

Asset class	2024	2025
Emissions by GDP-PPP adjusted (tCO2e/GDP (Int$))	93	87
Emissions per capita (tCO2e/capita)	5.6[1]	5.6

[1]The previous year emissions per capita metric has been updated from 5.5 to 5.6, as a retrospective republishing of the UK emissions has now fed through to the data source used by us and Schroders.

Directly held sovereign bonds

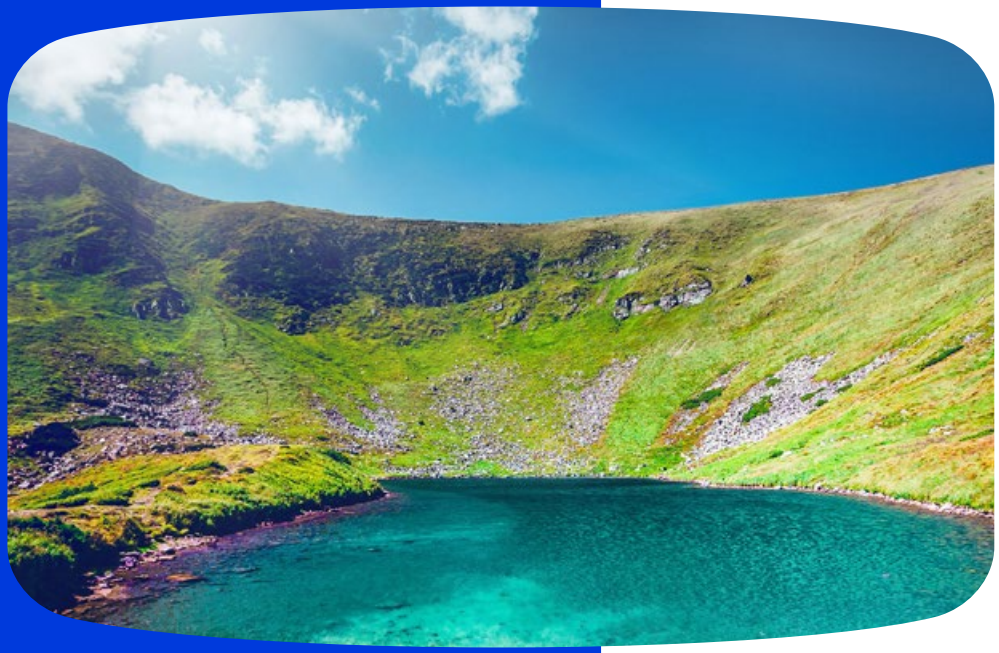
Asset class	2024	2025
Emissions by GDP-PPP adjusted (tCO2e/GDP (Int$))	431	303
Emissions per capita (tCO2e/capita)	7.4	8.0

LDI emissions intensity has decreased due to a reduction in the emissions of the UK energy grid (and the LDI portfolio's significant exposure to UK). The total emissions for the LDI portfolio were estimated as 518,000 tCO2e.

Directly held fixed income emissions decreased due to the lower allocation to oil producing nations. The total emissions for the directly held sovereigns portfolio were estimated as 38,000 tCO2e.

Case study

This case study outlines our engagement with the Scheme's LDI manager on climate policy advocacy



What is the background to the engagement?

Government policy plays a critical role in limiting temperature rises, yet more ambitious action and coordinated policy efforts are needed. As a significant investor in UK government bonds through the Scheme's LDI mandate, we can use our influence to encourage the action needed on systemic risks, including climate change.

What were the engagement highlights?

During the previous Scheme year, the RIC considered LCP's assessment of the UK policy advocacy activities undertaken by the Scheme's LDI manager on climate change and compared the assessment to other LDI managers. The review focused on eight key criteria to evaluate the manager's approach to climate advocacy and to understand how they compared to best practice. We issued a letter requesting that the Scheme's LDI manager takes clear actions to develop their approach further across several areas identified in the review. The LDI manager responded to our request with a written plan to address the noted areas. This included specific actions the manager intended to take.

In June 2025, the LDI manager attended a RIC meeting and gave an update on how it had developed its approach following our engagement. Improvements were noted in several categories. However, the RIC noted that further improvements could still be made, in particular around the manager being more publicly transparent with its actions on Net Zero policy advocacy.

What are the next steps?

We will continue to engage with the LDI manager on this topic, keeping practices under review and seeking best practice action in this important area.

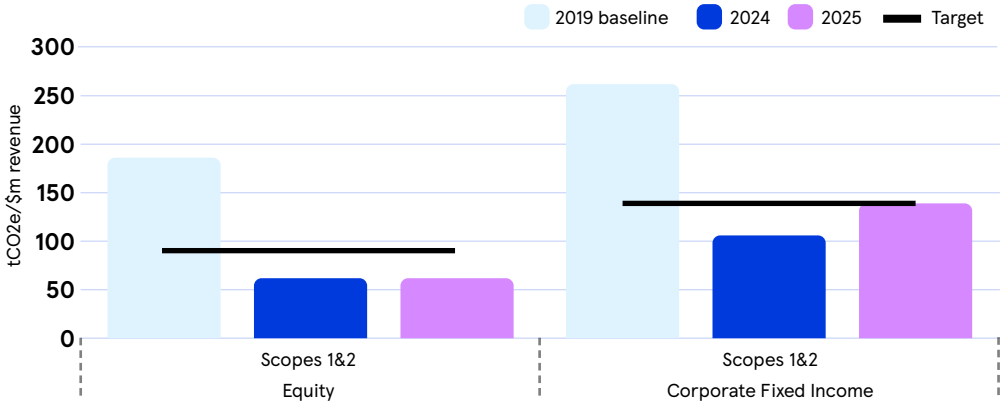
During the 2026-27 Scheme year, we intend to receive a further update from the LDI manager in this area, and to consider LCP's latest review of the policy advocacy of the manager and other managers in the market, to better understand how the manager compares for both general competency and improvements made to their approach. We also expect to consider the manager's approach to monitoring and mitigating physical climate risks.

Emissions reduction target

Our ambition is to reduce the Scheme's Weighted Average Carbon Intensity, a measure of carbon usage per $m invested, by 50% by 2030. The reduction target is relative to the base year of 2019. This target currently covers scope 1 and 2 emissions for the listed equity and corporate fixed income assets. Other asset classes may come into scope over time. We use this interim target to track progress towards our ambition of achieving Net Zero carbon emissions by 2050.

Weighted Average Carbon Intensity (WACI)

We report WACI in USD, rather than GBP, to better align with the currency of company reporting, and reduce exchange rate volatility. More information on this is given in **Appendix 3.**

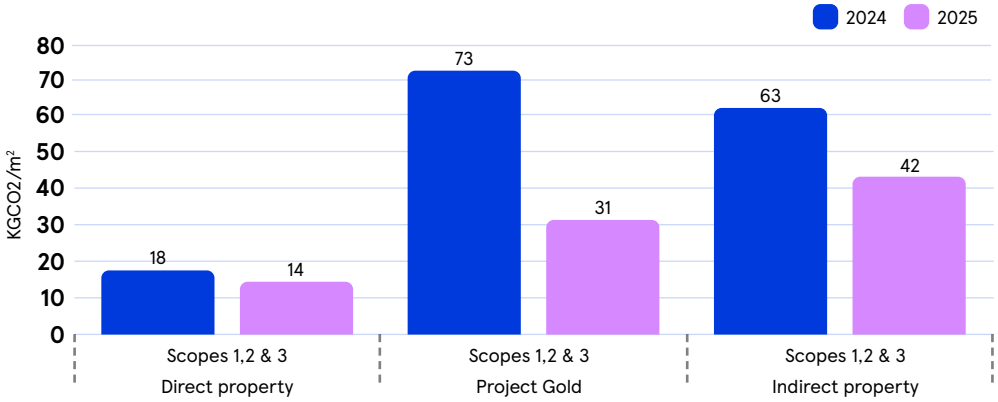


For the equity portfolio, the target is being met, with the focus being on ensuring that companies are continuing to progress towards their existing targets and reducing emissions further.

The WACI for corporate fixed income increased over the Scheme year. Like the other metrics, this increase was due to specific stock selection, we are comfortable with the overall investment cases for these decisions. We maintain a watchful brief over the progress of this portfolio.

Property – Intensity by floor area

The emissions intensity of all three property sections fell over the year, driven largely by lower electricity emissions factors due to improved renewables percentage within the UK grid.



Climate solutions target

We have an ambition to invest 5% of the Scheme's assets in climate solutions by 2030, to support our Net Zero ambition, where this is consistent with our fiduciary duties.

The Scheme has exposure to climate solutions in both public and private markets, including investments in energy efficiency related technologies and systems, and renewable energy infrastructure. The Scheme's exposure to climate solutions was assessed as 1.5% of Scheme assets as at 31 December 2025.

We have undertaken training to better understand the opportunity set for climate solutions and the options for making an investment that are aligned with the Scheme's investment strategy and risk appetite.

We are working with Schroders to consider investments that are appropriate given the Scheme's wider investment strategy and risk appetite.

06 Climate-related activities and action planning

We are using the IIGCC Net Zero Investment Framework to support our work associated with responsible investment, Net Zero ambition, and action planning.

Net Zero action planning steps taken

We have completed the following actions to support progress towards our Net Zero ambition. These are all key stages of our climate action plan.

- **Put a suitable governance framework in place**: We use a committee structure to make sure the right level of time and expertise is being spent on key RI matters, including Net Zero. At the end of the Scheme year, we agreed to integrate the RIC into the IRC to further enhance the integration, effectiveness and efficiency of the oversight and management of the Scheme's responsible investment risks and opportunities. Clear roles and responsibilities have been set for us and the IRC, as well as our advisers, and Schroders.
- **Reviewed our formal RI policy**: As part of the annual review of the RI policy, we revisit our investment beliefs around responsible investment. We include climate change as one of our stewardship priorities for the Scheme. The RI policy was reviewed and updated in the Scheme year to reflect the newly adopted narrative-based climate scenarios, and the ways in which they would be integrated into our decision making, and to give further detail on physical risk impacts and risk time horizons.
- **Collated climate metrics to inform and make an assessment on climate-related risks and opportunities**: We have provided significant detail on the climate metrics that were gathered and assessed in this report. The asset classes in scope for metrics collection for the Scheme (listed equities, corporate fixed income, property assets, sovereigns, LDI and private credit and infrastructure funds) form 88% of the Scheme's portfolio as at 31 December 2025, which is a slight improvement on last year's figure of 86%.
- **Targets and objectives and a Net Zero monitoring framework**: We have agreed to a set of metrics that we will use to assess our Net Zero progress with a clear target to allow for ongoing assessment. Monitoring of this forms part of our regular monitoring with the aim of making sure that alignment to Net Zero is taken into account in all future investments, as well as current investments. We are working with Schroders to assess opportunities in climate solutions, and whether investments can be identified as part of the broader investment strategy taking account of our fiduciary duties.
- **Continued to monitor our CRRO register and climate within our wider Scheme risk register**: We have continued to review and refine our CRRO register and considered the risks over the time horizons relevant to the Scheme, to monitor risks and make sure mitigating actions are being taken to address them. The CRRO register has also been incorporated into the Scheme's wider risk management framework.
- **Continued to strengthen our stewardship, engagement, and escalation activities**: We monitor stewardship and engagement activities carried out by Schroders and have had training sessions on stewardship to develop our knowledge. We have discussed the impact of engagement and our escalation plan with Schroders. Schroders reports on its engagement activity as part of its standard reporting, and has developed this reporting over the year. This reporting includes specific Net Zero-related provisions.
- **Advocacy and participation in industry groups**: We are an asset owner supporter of Climate Action 100+, the largest collaborative group of investors in the world, to engage with companies on climate change. We are also a signatory to Nature Action 100. Advocacy and participation in industry groups is an important engagement tool and we see this as a key way to influence and engage on climate and other ESG factors.

In addition to our collaborations, Schroders also works collaboratively with a wide range of global and regional bodies to drive systemic change through policy and company engagement. A few examples are listed below. Please note that this is not an exhaustive list.

- **Climate Action 100+**: Schroders is a founding signatory to the CA100+, a collaborative engagement project to engage more than 100 of the world's largest corporate GHG emitters. In 2025, Schroders led two CA100+ company engagements and supported several other company collaborative engagements as part of the initiative.
- **NZAMI**: Net Zero Asset Managers Initiative. Schroders was a founding member of NZAMI, a voluntary initiative for asset managers committed to supporting investing in line with the global goal of Net Zero greenhouse gas emissions. In 2025, Schroders re-affirmed continuation in the initiative after a review of the purpose and approach.
- **Nature Action 100**: Nature Action 100 is a global investor engagement initiative mobilising institutional investors to establish a common high-level agenda for engagements and a clear set of expectations to drive greater corporate ambition and action to stem nature and biodiversity loss. Schroders participated in several collaborative engagements with Nature Action 100 in 2025 with companies in the consumer staples and chemicals sectors.
- **IIGCC**: Institutional Investors Group on Climate Change. As signatories to the IIGCC, Schroders collaborates with the investment community to manage climate risk, while helping to protect the planet. In 2025, Schroders was a member of various working groups, including: UK policy, Real Estate, Renewables, Adaptation and Resilience and Just Transition, utilities, oil and gas, transportation, and industrials working groups. Schroders engages collaboratively through the IIGCC's Net Zero Engagement Initiative and the Engagement and Research Banking group.
- **Training on climate change and related factors**: We have received a number of training sessions in the Scheme year, to help make sure we have the necessary knowledge to address climate-related risks and opportunities. As referred to earlier in the report, training topics this year included governance issues including corporate transparency and voting, changing political landscapes and implications for responsible investment, climate scenario analysis, and sessions on the Schroders' SustainEx and NatCapEx tools. These tools are used by Schroders to help us estimate both the positive and negative impacts that companies and countries may create for society, nature and the environment.

Actions we plan to take

We have stated our intention to manage climate-related risks and opportunities for the Scheme, and to achieve our Net Zero ambition. We will review and develop our approach to make sure it remains suitable and effective over time and appropriate in the context of the investment strategy and our wider fiduciary duties.

We and the IRC have plans for future work on climate change, as well as wider action on other RI factors, such as nature loss. This includes the following actions towards our Net Zero ambition:

- **Increased focus on physical climate risks within climate reporting and analysis**, including their interaction with other ESG factors and systemic climate risks and improving understanding of the most significant risks within the portfolio.
- **Making progress towards the Scheme's alignment, engagement, carbon reduction and climate solutions targets** and taking action to support progress in achieving them (more detail on targets is set out in the Metrics and Targets Section). These targets will also be reviewed for suitability, and updated and adapted (where required) to reflect changes in the Scheme's investment strategy and wider market developments or changes in best practice.
- **Continue to develop and refine how we integrate the Net Zero ambition and the metrics and targets that we have selected into the overall strategy for the Scheme**. For example, extending our work on climate scenarios and tipping points to consider the potential impact on various asset classes, individual holdings and the Tesco covenant.
- **Developing the approach to climate solutions**. We are working with Schroders to consider investments that are in line with the Scheme's wider investment strategy, risk appetite and fiduciary duties.
- **Ongoing engagement**. We will continue to work with Schroders and identify the investments we intend to focus on for engagement relating to Net Zero and carry out engagement actions in line with agreed policies and targets.
- **Continue to develop knowledge with regular training on climate change, risks, and opportunities**. To make sure they remain up to date on the latest developments and have the right knowledge, we and the IRC will continue to have regular training on climate change and related areas. Planned topics include policy advocacy within the LDI portfolio and transition planning developments and expectations.

In our view, these actions make sure we have made our best possible effort, taking account of our fiduciary duties and the practical constraints, to:

- reduce emissions,
- use engagement to encourage alignment,
- drive real world change, and
- consider increasing allocations to climate solutions, in order to achieve appropriate returns on the Scheme's investments whilst managing risk.

We will keep these actions under review and, as an evolving area, expect to take additional actions in future years. We will report on these actions annually in this Climate Change Report.

What does this all mean?

This report sets out how we are identifying, assessing, monitoring, and managing climate-related risks and opportunities for the Scheme and the progress we have made this year. An important part of this is our ambition for the Scheme's assets to have Net Zero carbon emissions by 2050, as is exercising effective stewardship as part of achieving this.

We will continue to work closely with Schroders and our advisers, to further develop our approach as data quality improves, and as the Scheme's assets change over time. A climate change report for the Scheme will be issued every year. We look forward to sharing our progress with you.

07 Additional information

Simple guide to the terms used

Term used	Definition
Actuarial valuation	Typically carried out every three years, to help us and the Scheme's Sponsor (Tesco PLC) work out how much money the Scheme needs to pay everyone's pension benefits, now and in the future.
Alignment	In a climate change context, the process of bringing greenhouse gas emissions in line with 1.5°C temperature rise targets. It can be applied to individual companies, investment portfolios, and the global economy.
Alternative assets	Alternative assets historically used by the Scheme, including reinsurance assets. Many alternative asset classes look to make money for their investors without having a specific benchmark. Note that these are commonly used by many pension schemes.
Asset class	A way of grouping investments that exhibit broadly similar characteristics to each other. Examples of asset classes include equities or property.
Bond	A way for companies, governments, and other organisations to raise money. In exchange for an upfront payment, an investor normally expects to receive a series of regular interest payments, plus a final lump sum payment, typically equal to the amount invested originally.
Carbon emissions	The release of carbon dioxide, or more generally greenhouse gases, into the atmosphere. For example, from burning fossil fuels.
Carbon footprint	In an investment context, the total carbon dioxide or greenhouse gas emissions generated per amount invested (eg in £m) by an investment.
Carbon Risk Real Estate Monitor(CRREM)	A tool that provides the real estate industry with science-based plans to de-carbonise, which are aligned with the goals of the Paris Agreement (see below).
Climate-related risks and opportunities	The TCFD (see below) recommends scheme-specific consideration of the risks and opportunities caused by the effects of climate change, and any steps which might be taken (for example, by governments) as a result of climate change.
Covenant	The ability and willingness of the Scheme's Sponsor (Tesco PLC) to make up any shortfall between a DB scheme's assets and the agreed funding target.
Credit	Long-term debt issued by a company, also known as corporate bonds. Corporate bonds carry different levels of credit risk which is indicated by their credit rating and prospective returns.

Term used	Definition
Debt	Money borrowed by a company or government which normally must be repaid at some specified point in the future.
Defined Benefit (DB)	A pension scheme in which the pension benefits payable to members are based on a formula, often linked to the member's salary. The Sponsor (Tesco PLC) bears the risk that the value of the investments held under the scheme fall short of the amount needed to pay the pension benefits.
Direct Property	Properties where we have full ownership and are not held through a fund. For the Scheme, these tend to be properties based in the UK.
Emerging Market Debt	Debt issued by governments or companies in emerging economies. Compared with its developed market equivalent, emerging market debt has been perceived as riskier and has typically therefore offered higher prospective returns.
Environmental, Social and Governance (ESG)	Factors that can impact the value of an investment. Environmental factors include physical resource management, pollution prevention, and greenhouse gas emissions. Social factors include workplace diversity, health and safety, and a company's impact on its local community. Governance matters include executive compensation, board accountability, and shareholder rights.
Equity	Equity holders have part-ownership in a company, and therefore are entitled to a share of its profits, typically received through dividends. Equity holders can vote at shareholder meetings.
Fiduciary obligations	A legal obligation of one party (a fiduciary) to act in the best interests of others. Fiduciaries are people or legal entities that are entrusted with the care of money or property on behalf of others. They include pension scheme trustees.
Fixed income	This is the asset class comprising bonds and other debt instruments. The name is derived from the fixed set of cash flows payable, although some bonds may have variable cash flows (such as those linked to inflation). Although the cash flow amounts may be fixed or variable, the market value of the bond varies, for example, as interest rates change.
Fossil fuels	Fuels made from decomposing plants and animals, which are found in the Earth's crust. They contain carbon and hydrogen, which can be burned for energy. Examples include coal, oil, and natural gas.
Funding position	A ratio of the value of assets to the value of liabilities (right) for a DB pension scheme.

Term used	Definition
Gilts	Bonds issued by the UK government. They are called gilts as the bond certificates originally had a gilt edge to indicate their high quality (as the UK government has a low probability of defaulting on its bond obligations).
Gross Domestic Product (GDP)	A monetary measure of the market value of all the goods and services produced by a country, over a specific period.
Greenhouse Gas (GHG) emissions (Scopes 1, 2, 3)	Gases that have been and continue to be released into the Earth's atmosphere. Greenhouse gases trap radiation from the sun which subsequently heats the planet's surface (giving rise to the "greenhouse effect"). Carbon dioxide and methane are two of the most important greenhouse gases.
High Yield Bonds	Bonds issued by companies with low credit quality, ie below investment grade. They offer investors a higher yield but carry a greater risk of default.
Indirect Property	Property investments made through a fund or similar structure. These investments tend to give the investor less control over the underlying properties.
Integrated risk management	An approach used by DB pension scheme trustees to identify, manage, and monitor the wide range of risks (associated with investment, funding, and covenant), which might have an impact on the chances of them meeting their scheme's overall objectives.
Just Transition	A Just Transition means moving to a more sustainable economy in a way that's fair and inclusive to people, workers, and communities.
Liabilities	Obligations to make a payment (or payments) in the future. An example of a liability is the pension benefit "promise" made to DB pension scheme members, such as their regular pension payments after they retire. It is often more difficult to predict how much a payment will be, and therefore what assets need to be held, the further into the future the payment is due.
Liability Driven Investment (LDI)	An investment approach that focuses on matching the sensitivities of a DB pension scheme's assets to those of its underlying liabilities in response to changes in certain factors, most notably interest rate and inflation expectations. The purpose of this is to reduce the volatility of the funding position.
Net Zero	The situation in which total greenhouse gas emissions released into the atmosphere are equal to those removed. This can be considered at different levels, eg company, investor, country or global.

Term used	Definition
Normalisation	A method for estimating the GHG emissions of a full portfolio where only part of the portfolio has data. This assumes that the missing emissions data has the same intensity as the part of the portfolio with data.
Offsetting	The process of paying someone else to avoid emitting, or to remove from the atmosphere, a specified quantity of greenhouse gases. For example, through planting trees or installing wind turbines. It is sometimes used to meet Net Zero and other emission reduction targets.
Paris Agreement	The Paris Agreement is an international treaty on climate change, adopted in 2015. It covers climate change mitigation, adaptation, and finance. Its primary goal is to limit global warming to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels.
Passive management	A passive investment manager constructs a portfolio with the aim of replicating, rather than outperforming, the performance of a benchmark (eg FTSE 100).
Physical risk	Climate-related risks that arise from changes in the climate itself. They include risks from more extreme storms and flooding, as well as rising temperatures and changing rainfall patterns.
Project Gold asset	The Scheme's Project Gold asset is an investment in a vehicle that holds an equity interest in around 80 Tesco Stores, Distribution Centres, and retail parks. The Scheme will own 50% of these properties when this investment reaches its maturity date (in 2039).
Responsible Investment (RI)	The process by which environmental, social and governance (ESG) issues are incorporated into the investment analysis and decision-making process, and into the oversight of investment companies through stewardship activities. It is motivated by financial considerations aiming to improve risk-adjusted returns.
Safe Harbour	The Scheme's additional funding objective to be 100% funded on a low-risk investment strategy designed to meet the future cashflow requirements. This equates to being in a position to be able to meet all future liabilities with returns of just 0.5% a year above gilts.
Scenario analysis	A tool for examining and evaluating different ways in which the future may unfold and what the effect would be on the Scheme's investments. Typically a number of scenarios will be chosen to be evaluated.
Science-based targets	Targets to reduce greenhouse gas emissions that are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement.

Term used	Definition
Science-Based Targets Initiative (SBTi)	An organisation that sets standards and provides accreditation for science-based targets set by companies and investors.
Scopes 1, 2, 3	A classification system used to define what is included in greenhouse gas emissions metrics. This is explained further in **Appendix 1**.
Stakeholder	An individual or group that has an interest in any decision or activity of an organisation. The stakeholders of a company include its employees, customers, suppliers, and shareholders.
Statutory obligations	Obligations that do not arise out of a contract but are imposed by law.
Stewardship	The responsible allocation, management, and oversight of capital, to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment, and society. It is often implemented through engagement with companies, and through exercising voting rights.
Stranded assets	Assets that have suffered an unanticipated loss of value before the end of their expected useful economic life. The term is most often applied to fossil fuel investments in the context of climate policy, where legislative and market developments may result in assets being worth less than the value currently given to them.
Task Force on Climate-related Financial Disclosures (TCFD)	A group established by the international Financial Stability Board in 2015. The TCFD has developed a set of recommendations for climate-related financial risk disclosures for use by companies, financial institutions, and other organisations to inform investors and other parties about the climate-related risks they face.
Transition risk	Climate-related risks that arise from the transition to a low-carbon economy and can include changes in regulation, technology, and consumer demand.
VaR (Value at Risk)	A one year "1-in-20 VaR" of £1.5bn means there is a 1 in 20 likelihood that the Scheme's deficit will increase in value by £1.5bn or more, compared to the expected position, over the next year.

Appendices

Appendix 1 – Greenhouse gas emissions explained

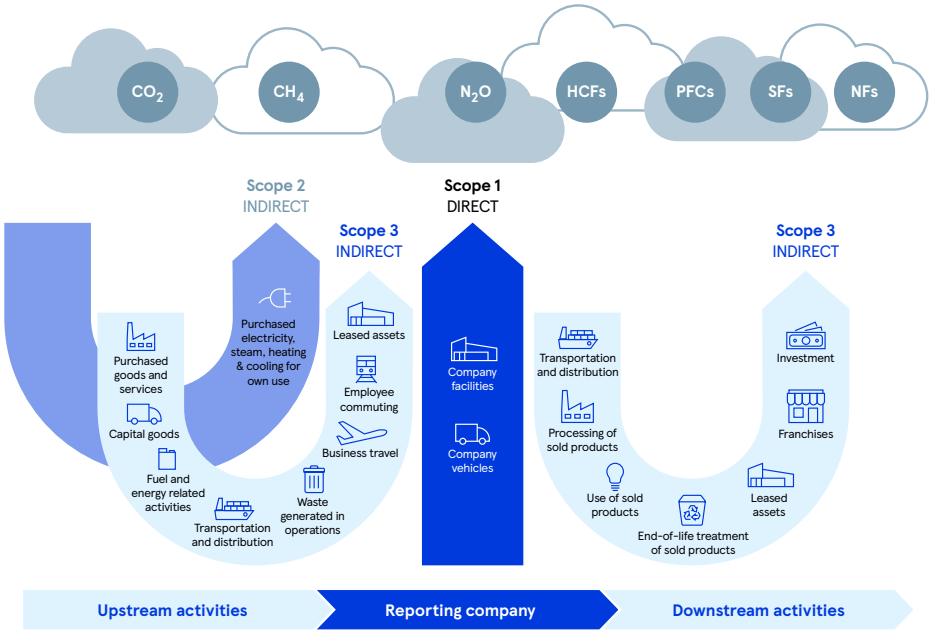
In this report, the emissions metrics discussed relate to seven greenhouse gases – carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF6) and nitrogen trifluoride (NF3).

The figures are shown as "CO2 equivalent" (CO2e), which is the amount of carbon dioxide that would be equivalent to the excess energy being stored by (and therefore heating) the earth, due to the presence of these seven greenhouse gases in the atmosphere.

The metrics related to greenhouse gas emissions are split into the following three categories: Scope 1, 2 and 3. These categories describe how directly the emissions are related to an entity's operations, with Scope 1 emissions being most directly related to an entity's everyday activities and Scope 3 referring to indirect emissions in an entity's value chain.

Scope 3 emissions often form the largest share of an entity's total emissions, but they are also the ones that the entity has least control over.

- **Scope 1** greenhouse gas emissions are all direct emissions from the activities of an entity or activities under its control.
- **Scope 2** greenhouse gas emissions are indirect emissions from electricity purchased and used by an entity which are created during the production of energy which the entity uses.
- **Scope 3** greenhouse gas emissions are all indirect emissions from activities of the entity, other than scope 2 emissions, which occur from sources that the entity does not directly control.



Source: GHG Protocol

Appendix 2 – additional Targets and Metrics information

Summary of 2025 Emissions and Data Quality Metrics

Public markets		Absolute emissions: Total greenhouse gas emissions (tCO2e)	Emissions intensity: Carbon footprint (tCO2e/£m invested)	Emissions intensity: WACI (tCO2e/$m revenue)	Data Coverage	Data Coverage		
						Reported	Estimated	No data
Listed Equities	Scopes 1 & 2	44,000	27	62	97%	90%	7%	2%
	Scope 3	527,000	319	661	97%	84%	14%	2%
Corporate Fixed Income	Scopes 1 & 2	61,800	76	135	80%	67%	13%	20%
	Scope 3	501,000	613	694	77%	57%	20%	23%

Private markets		Absolute emissions: Total greenhouse gas emissions (tCO2e)	Emissions intensity: Carbon footprint (tCO2e/£m invested)	Emissions intensity: Floor area (kgCO2/m²)	Data Coverage	Data Coverage		
						Reported	Estimated	No data
Direct Property	Scopes 1, 2 & 3	1,800	10	14	100%	44%	56%	0%
Project Gold	Scopes 1, 2 & 3	17,800	85	31	100%	100%	0%	0%
Indirect Property	Scopes 1, 2 & 3	36,500	60	42	92%	68%	25%	7%
Infrastructure	Scopes 1 & 2	28,800	50	n/a	94%	74%	20%	6%
	Scope 3	32,200	56	n/a	47%	18%	29%	53%
Private credit[1]	Scopes 1 & 2	28,000	30	n/a	52%	22%	31%	48%
	Scope 3	474,000	516	n/a	48%	17%	31%	52%

Sovereign Fixed Income		Absolute emissions: Total greenhouse gas emissions (tCO2e)	Emissions per capita (tCO2e/capita)	Emissions by GDP-PPP adjusted (tCO2e/GDP (Int$))	Data Coverage	Data Coverage		
						Reported	Estimated	No data
LDI	Scopes 1 & 2	518,000	5.6	87	100%	0%	100%	0%
Non - LDI	Scopes 1 & 2	38,000	8.0	303	100%	0%	100%	0%

[1]For both absolute emissions and carbon footprint metrics, one private credit fund was unable to provide scopes 1&2 and scope 3 emissions separately, however advised that the vast majority,if not all, could be classified as scope 3. These emissions, amounting to c700 tCO2e, have therefore all been included as scope 3 emissions. Certain information ©2026 MSCI ESG Research LLC. Reproduced by permission. Totals may not sum due to rounding.

Further details on climate-related metrics

Metric	What's included and why
Absolute emissions: Total greenhouse gas emissions (tCO2e)	The total of each company's most recent reported or estimated greenhouse gas emissions attributable to the Scheme's investment in the company, where data is available. Emissions are attributed evenly across equity and debt investors. Reported in tonnes of CO2 equivalent. Total emissions are reported after normalisation, where the part of the portfolio for which no emissions data is available is assumed to have the same emissions intensity as the rest of the portfolio. This metric is anticipated to reduce over the long term as the Scheme and the global economy decarbonise.
Emissions intensity: Carbon footprint (tCO2e/£m)	The total greenhouse gas emissions collected above, divided by the value of the invested portfolio in £m, adjusted for data availability. Emissions are attributed evenly across equity and debt investors, except in the case of property where it is all attributed to equity holdings. Reported in tonnes of CO2 equivalent per £1m invested. This metric is anticipated to reduce over the long term as the Scheme and the global economy decarbonise.
Emissions intensity: Weighted Average Carbon intensity (WACI) (tCO2e/$m)*/ emissions intensity per floor area kgCO2/m2/ emissions intensity per capita tCO_2e/ capita	The greenhouse gas emissions of each company divided by the company's revenue in $m and aggregated across the portfolio based on the portfolio weights of the investee companies. Reported in tonnes of CO2 equivalent per $1m of revenue. For property: The greenhouse gas emissions of each holding divided by the holdings' floor space in square metres and aggregated across the portfolio based on the portfolio weights of the property holdings. Reported in kg of CO2 equivalent per square metre. For sovereign bonds and liability driven investment (LDI): The greenhouse gas emissions of each holding divided by either GDP or capita of the issuing country. Reported in tonnes of CO2 equivalent per £1m of GDP at Purchasing Power Parity (ie per Int$1m) or in tonnes of CO2 equivalent per capita. This metric is anticipated to reduce over the long term as the Scheme and the global economy decarbonise. *year on year comparison is stated per $m of revenue
Portfolio alignment: Alignment with Net-zero by 2050 goals	For equity and fixed income, the proportion of the portfolio by weight of companies that are aligned with Net Zero by 2050 goals, demonstrated by a target approved by the Science Based Targets initiative (SBTi) or equivalent. Reported in percentage terms. More detail on the method for assessing alignment for each asset class is included in the Schroders Net Zero Alignment Framework on the following page. This metric is anticipated to increase over the long term as companies align with their Net Zero goals.
Emissions data coverage: Data quality	The proportion of the portfolio for which greenhouse gas emissions data is verified, reported, estimated or unavailable. Verified emissions refers to data reported by the emitting company and verified by a third party. Reported emissions are reported by the emitting company but not verified. Data quality is anticipated to increase over the long term as disclosures improve.

Schroders Net Zero alignment framework

Net Zero alignment Framework	Ambition	Credibility	Progress
	How ambitious are the company's targets?	How credible are the company's targets?	Is the company decarbonising in practice?
Net Zero	-	-	Issuer has achieved Net Zero emissions intensity
Aligned	Issuer has near- and long-term targets that are aligned with Net Zero by 2050 (cumulative emissions reduction, ITR or SBTi)	Targets cover material company emissions	Issuer emissions intensity trend indicates that it is decarbonising ahead of industry average or in line with a Net Zero pathway
Aligning	Issuer has set near- or long-term targets that are aligned with Net Zero by 2050 (cumulative emissions reduction, ITR or SBTi)	Targets cover at least half of company emissions	Issuer emissions intensity trend shows decarbonisation is underway and current intensity is lower than peers
Committed to Align	Issuer has committed to setting targets or has existing targets of some ambition (cumulative emissions reduction, ITR or SBTi committed)	Indication that some company emissions are covered by targets	Issuer emissions intensity trend may not yet demonstrate decarbonisation
Not Aligned	Either very weak emissions reduction targets or none exist	Targets, if any, do not cover material emissions	No evidence of decarbonisation or lack of data

Sovereign Net Zero alignment framework	Overall	Ambition	Credibility	Progress
		What is the country's level of Net Zero ambition?	Do the issuer's actions demonstrate credibility to decarbonise?	Is the country achieving reductions in practice?
Aligned	Country is Aligned on 2 or more pillars	Country has comprehensive long- term and/or interim Net Zero targets and/or targets are in line with its fair share pathway	Country has a transition plan and/or high renewables share and/or phasing out fossil fuel spending and/or has set an ambitious carbon price and/or contributes fair share of climate finance	Country has a downwards emissions trend over past 5-6 years and projected emissions in 2030 undershoot fair share pathway
Aligning	Country is Aligned or Aligning on 2 or more pillars	Country has long-term and/or interim targets to reduce emissions and/or targets are close to fair share pathway	Country has a transition plan and/or good renewables share and/or increasing renewables spending and/or has set a carbon price and/or contributes to climate finance	Country has a downwards emissions trend over past 5-6 years and/or projected emissions in 2030 are close to fair share pathway
Not Aligned	Country is Not Aligned on 2 or more pillars	Either very weak emissions reduction targets or none exist	Country does not have a transition plan and is not taking mitigation measures	Upwards emissions trend and projected emissions far overshoot fair share pathway

Data collected

Schroders obtained the data required and calculated the metrics for the Scheme's assets on our behalf.

We believe we have used the best and most recent data available at a proportionate cost. The extent to which reported data has been estimated is shown in the Emissions and Data quality metrics tables.

We are comfortable that actual emissions data was used as far as possible, and any use of estimates should not have a significant impact on the overall portfolio emissions metrics within public markets, given that actual data was readily available for equities and corporate fixed income.

We acknowledge, however, that it remains challenging to obtain reported Scope 3 data at the current time, and that a relatively high proportion of private market asset data has been estimated, which may have impacted the results within this asset class. We note that it will be important to improve the reported data within these asset classes, through further engagement, in the future and that data quality will improve as methodologies become more consistent, and disclosures become standardised and easier to interpret.

We have gathered climate data, using best endeavours and as far as we are able in order to give the best picture of our latest position that we can. Data availability and consistency in approach between external managers is still evolving and we have been reliant on what has been provided by third party external managers.

Data is not yet available for all the Scheme's assets.

- There is no data currently available for treasury assets. These assets represent 4% of the Scheme's asset base as at 31 December 2025. Treasury assets are primarily invested in cash and other liquid short-term instruments and there is currently no standard methodology for collecting or aggregating metrics.
- We collected data for our private equity mandates (representing 7% of assets), but while coverage and quality of data has improved since last year, it remains poor and worse than other asset classes. Where there were gaps in data, we considered using estimates and normalised data, but concluded that would not give a fair reflection of Scheme emissions due to the low coverage/data quality. We therefore chose to exclude this data from the reporting until better data could be collected. Improving the coverage and quality of this data is an engagement priority for Schroders within unlisted markets.

It should be noted that for the private market assets Scope 1,2 and 3 emissions data has been disaggregated where possible, including infrastructure and private credit. We are working with private markets managers to improve this over time.

For public markets (equity and fixed income), climate metric data comes from MSCI as either reported data or estimated data if reported data is not available. Private markets fund information was sourced by Schroders from the external fund managers. Direct property emissions were calculated by applying a conversion factor to energy use data sourced by Schroders from tenants and property managers.

We have reported on the latest available data, as we are required to do. Public markets data is based on asset allocation valuations as at 31 December 2025, and using the latest emissions data available from the underlying companies/sovereigns. Data available from MSCI is at the latest date available within their data set. Data was collated and assessed in the Scheme year, however some of the data was reassessed post Scheme year end to ensure consistency between metrics and to review new information provided by managers.

For private markets (ie property, infrastructure and private credit) the Net Asset Value (NAV) is as at 31 December 2025 and the emissions data is the latest available from the investment managers. Where direct property emissions data was not available at the time the data was collected, estimates were used based on the Carbon Risk Real Estate Monitor (CRREM) tool to the fullest extent possible.

We have sought to collect scopes 1 & 2 data separately from scope 3 where possible, however this has not been possible within some asset classes.

Included for metrics and alignment target 43%

- Equities
- Corporate fixed income
- Infrastructure
- Property (funds now included)

Included for metrics, not alignment target: 45%

- Sovereigns
- LDI
- Private credit

Not included 12%

- Private equity
- Alternatives and other residual assets
- Treasury assets.

Asset allocation for above table based on 31 December 2025 position.

Methodology

LDI and sovereign assets

For LDI assets, the emissions figures were calculated by the Scheme's LDI manager for the LDI portfolio and by Schroders for the sovereign bond portfolio. As suggested in the statutory guidance, Scope 1+2 emissions have been interpreted as the production-based emissions of the country (e.g., from manufacturing). Scope 3 emissions have been interpreted as the emissions embodied in goods and services imported by the country and consumed within the country (rather than re-exported).

In line with guidance from the Partnership for Carbon Accounting Financials (PCAF) issued in December 2022, emissions intensity has been calculated, for each country in which government bonds are held, as:

$$\frac{\text{(the country's greenhouse gas emissions)}}{\text{(the country's Gross Domestic Product at Purchasing Power Parity)}}$$

These figures have been aggregated across countries by summing the GHG emissions and calculating a weighted average emissions intensity based on the proportion of the country's weight in the portfolio.

For the LDI mandate, derivatives of gilts have been treated as a direct investment in an equivalent gilt. Greenhouse gas emissions have been calculated for the gilt exposure (including the repo loan amount) but not the swap positions. This is in line with our understanding of the typical interpretation of the DWP guidance by investment managers and consultancies as not requiring estimation of emissions for swap exposures at this time.

WACI reporting currency

The reporting currency for the emissions intensity WACI metric is USD; this metric is shown for corporate listed assets. Most companies report this metric in USD as it is calculated by reference to company revenues, which tend to be reported in USD. Climate data providers therefore report WACI in USD. By using the USD version of the metric data, any change in this metric should be attributed to the WACI data itself, rather than exchange rates, giving a more accurate description of the WACI of the Scheme's assets for its corporate listed holdings. For comparison against the previous year, USD is used for both this year and the previous year's results (which have been restated from last year's reporting).

Emissions normalisation

The Scheme's emissions are reported using normalisation, which is the process of scaling up the emissions of a portfolio that has coverage of less than 100%. This works by assuming the missing data has the same emissions intensity as the data available. This gives a better indication of what the overall portfolio emissions might be, based on the emissions intensity of the portfolio constituents that have reported data.

For example, for a £10m portfolio with coverage of 80%, and emissions intensity of 40 tCO2e/£m for the £8m covered, total emissions would be scaled up from 320 tCO2e (representing the £8m for which there is data) to 400 tCO2e (intended to represent the full £10m portfolio). This is calculated as 400 = 320 / 80%.

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