



Tesco PLC Pension Scheme Climate Change Report for the year ended 31 March 2025

Climate Change Report 2025

Contents

Click on the links below to jump to each section.

	Page
Introduction from the Chair	3
Summary for Members	4-6
Our Scheme	7
Governance	8-12
Strategy	13-20
Risk Management	21-25
Metrics and Targets	26-40
Climate-related Activities and Action Planning	41-43
Simple Guide to the Terms Used	44-46
Appendices	47-57



This report is structured in line with the TCFD framework and covers:

- **Governance:** the governance structure and arrangements that the Trustee has used to consider climate-related risks and opportunities.
- **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.
- **Risk management:** including how the Trustee identifies, assesses, and manages climate-related risks and opportunities.
- **Metrics and targets:** and how they are used to assess and manage climate-related risks and opportunities.

Introduction from the Chair

I am pleased to share with you this year's Climate Change Report on behalf of the Trustee. This report explains the work we've done on climate change, the progress we've made against our objectives as well as explaining the work that we will continue to do.

Our top priority is to invest the Scheme's money to make sure we can pay pensions and other benefits to you, our members – and the Scheme continues to be well funded.

Over the past 12 months, we have seen global headlines showing differing views on climate change as well as headlines on the rise of global carbon emissions and the increase of extreme weather events. With this in mind, we remain fully committed to managing how the climate affects the Scheme. We have continued to make good progress overall in our ambition for the Scheme's investments to reach Net Zero carbon emissions by no later than 2050 – and we remain on track to meet these goals.

We believe that climate change is a financial risk, but also creates opportunities and so we are always looking for further ways to help tackle climate change whilst delivering value. I am proud to announce that this year, we've set a new ambition to invest 5% of the Scheme's assets in investments that support the move to a low-carbon world by 2030, whilst providing the investment returns needed.

In the summer of last year, we appointed Schroders to manage our investments. Schroders was selected for its

strong investment expertise, its alignment with the Scheme's long-term needs, and its commitment to sustainability. We are already seeing the benefits of this partnership in how we assess the challenges of a changing climate.

To help us better understand climate risks, we have been using the latest scientific research to look at the real-world impacts of climate change on our investments and how to protect against them. Our actions and decisions are affected by the information we have, so we have also continued to work on improving the amount and quality of data we have available. This helps us make better decisions and keep the Scheme's investments safe, even as the world changes.

We believe that responsible investment is not only the right thing to do – it is essential to securing the long-term value of the Scheme. We hope you find this report helpful, and that it gives you an idea of the types of steps that we're taking on climate change.

You may not be familiar with some of the terms used in this report, so we've included a simple guide to explain them in [Terms Used](#).



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

Summary for Members

The Trustee is committed to playing its part in the transition to a low-carbon world through the investments we make. By taking positive steps to tackle climate change, we're not only helping to protect our member's retirement savings, but also supporting a more sustainable future for everyone.

This summary outlines:

- **Our climate-related priorities**
- **What we've done this year**
- **Where we are now and what's next**

Our climate-related priorities

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

- **Analysing climate-related risks and opportunities:** We use the approaches available to ensure we are aware of the risks in the portfolio, to the fullest extent possible, in order to protect your member benefits. We also look for new opportunities that could fit in our investment strategy.
- **Net Zero by 2050:** We remain committed to our ambition for the Scheme's assets to have Net Zero carbon emissions by no later than 2050. We set out more details on our specific targets supporting this aim in [Page 27](#) of this report.
- **Monitoring and Engagement:** We track climate data across our investments and engage with companies to encourage positive change.

What we've done this year

Governance

- **Appointed Schroders as our new principal investment manager:** Schroders was chosen because of their deep investment expertise across investment and sustainability, their alignment to the needs of the Scheme, and their determination to have a positive impact on the financial future of the Scheme, society, and the environment. The transfer to Schroders was completed in the summer of last year.
- **Continued to develop our knowledge and understanding of climate-related risks and opportunities:** The Trustee received training including forecasts on how the climate may affect the economy, new responsible investments and themes and Schroders' approach to engagement and sustainability analysis.

Strategy

- **Updating our approach to climate scenario analysis:** The Trustee is moving to a new way of looking at the real-world impacts of climate change on our investments. This approach is more descriptive rather than numbers based and looks at 'tipping points' (a threshold that can lead to significant, potentially irreversible, changes). This view on climate change helps the Trustee understand the potential impacts of climate change on the Scheme in a more practical way.
- **Improved climate data:** The Trustee has worked with Schroders to encourage improvements to emissions data across our investments. The most notable improvement was in private market investments, investments not traded on a public exchange. Coverage improved and now includes different types of emissions (scope 1, 2 and scope 3 emissions – explained in [Appendix 1](#)) which were split for some types of investments for the first time.



- **Continued with engagement activities across our investments:** We engage with companies to appropriately support the climate transition which also helps the Trustee with its aim to achieve Net Zero carbon emissions by no later than 2050. We've provided case studies on some of our activities throughout this report.
- **Participated in industry initiatives:** such as Climate Action 100+, and Nature Action 100, which encourage actions to be taken by large companies to lower carbon emissions and nature loss.

Risk Management

- **Reviewed our Responsible Investment policy:** This year, the Trustee reviewed its stewardship priorities and added 'fair and decent treatment of workers' as a new priority.

Metrics and Targets

- **Made progress towards the targets we've set for the Scheme:** The Trustee is, so far, on track to meet its interim targets, including a 50% reduction in carbon emissions intensity in our equity and corporate fixed income portfolios by 2030 (compared to 2019 baseline emissions).
- **Set a new ambition:** to invest 5% of Scheme assets in investments that support the move to a low-carbon world, known as climate solutions, by 2030.

Where are we now?

- The Trustee continues to identify, assess, monitor and manage climate-related risks and opportunities for the Scheme. There's more information in this report on how we do this.
- Full details on the climate data we've collected and the progress we've made this year towards our targets, are set out later in this report. The metrics and analysis that we've reported on are improving, but there are still some limitations with the availability of data. We've provided detailed notes in our disclosures on the improvements we've made this year, and the challenges we've encountered. Despite this, we hope that this report will give you, our members, a good understanding of the work we're doing and the progress we're making.

Our performance against our targets:

- **Emissions reduction target:** Assets are on track for the targeted 50% emissions reduction in Weighted Average Carbon Intensity (WACI) by 2030. This is against a base year of 2019, with the Trustee monitoring the equity and corporate fixed income sub-portfolios.
- **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%.
- **Alignment target:** 62% of the public companies, properties and infrastructure we invest in are working towards or have set a credible plan for getting to Net Zero by 2050. Our target is to get the level of those working towards Net Zero to 70% by 2030.
- **Climate solutions target:** 1% of assets were invested in renewable infrastructure funds at our review in November 2024. During the year the Trustee set an ambition to invest 5% of Scheme assets in positive climate solutions by 2030.



What's next?

Whilst managing climate-related risks and opportunities, we will continue to take meaningful steps toward our long-term ambition of achieving Net Zero emissions by 2050. To do so, we will use our chosen set of climate-related metrics to track our progress and to help us stay on track with our journey.

We know that our investment strategy will evolve over time, and so will the targets we set. As we make changes to how and where we invest, we'll review both the targets and the types of assets they apply to, to make sure they remain relevant and effective. We will also keep our Responsible Investment policy and stewardship priorities under regular review to ensure they reflect our values and long-term goals.

Improving the quality of our climate data is key to helping us monitor our progress. Private credit and private equity have been identified as areas we need to work on, as good quality information for these investments can be harder to access. Better data means better monitoring and decisions, so we will be working to strengthen our coverage across all of our investments.

We will continuously improve how we assess physical climate risks. This will feed into our investment decision-making.

In the next year we will also actively engage with Schroders and other external managers and advisors to encourage positive change. This includes exploring new opportunities to invest in investments that help improve the environment and nature, whilst achieving our Net Zero ambitions.

Our ambition is to build a resilient investment strategy that supports a more sustainable world in order to provide financial security for our members. We will provide further updates on our progress each year.

**Emissions
reduction
on track**

**Over 80%
of emissions
engaged**

**62% of assets
working towards
Net Zero**

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.

Our Scheme

The Tesco PLC Pension Scheme (“the Scheme”) is a defined benefit scheme with over 330,000 members. It was closed to future service benefits in November 2015. The Scheme had total assets of approximately £11.3bn as at 31 December 2024.

The Trustee’s 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, the Trustee needs to invest the Scheme’s money.

The Trustee’s 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 2024. A summary of assets as at December 2023 is also set out in the table, including asset class descriptions that were used before the strategic changes implemented in 2024. The Scheme’s asset allocation aims to provide strong returns on its investments, reduce risks including climate risks, and ensure there’s sufficient funds available to pay benefits to members and cover its other obligations.

The key changes in how we view our assets, and new investments made over the year are:

- Income Generating Assets was an asset class that included private credit, infrastructure equity and property assets. This was split to give a clearer view of how these different assets are performing.
- Direct property and indirect property were split out as the way the assets are managed tend to be different due to the level of control the Trustee has over investment decisions.

The Trustee is 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 risk and opportunities. The Trustee is using the [IIGCC Net Zero Investment Framework](#), one of the most widely used guides for investors for Net Zero targets and strategies, to support its work on our Net Zero commitment, and we’ve therefore included metrics and disclosures on our Net Zero commitment in this report, in addition to our TCFD disclosures.

Asset class	31 December 2024 (%)	31 December 2023 (%)	
Matching Assets			
LDI	29%	Gilts, collateral and hedging, and asset backed securities	45%
Liquidity	6%		
Public Markets			
Equity	22%	Equity	12%
Corporate Fixed Income	11%	Credit	10%
Private Markets			
Private Credit	10%	Income Generating Assets (Private Credit, Infrastructure Equity and some Property assets)	16%
Infrastructure Equity	6%		
Direct Property	1%		
Indirect Property	7%	Property	6%
Project Gold*	1%	Project Gold*	1%
Private Equity	8%	Alternatives (including private equity)	10%
Alternatives	<1%		

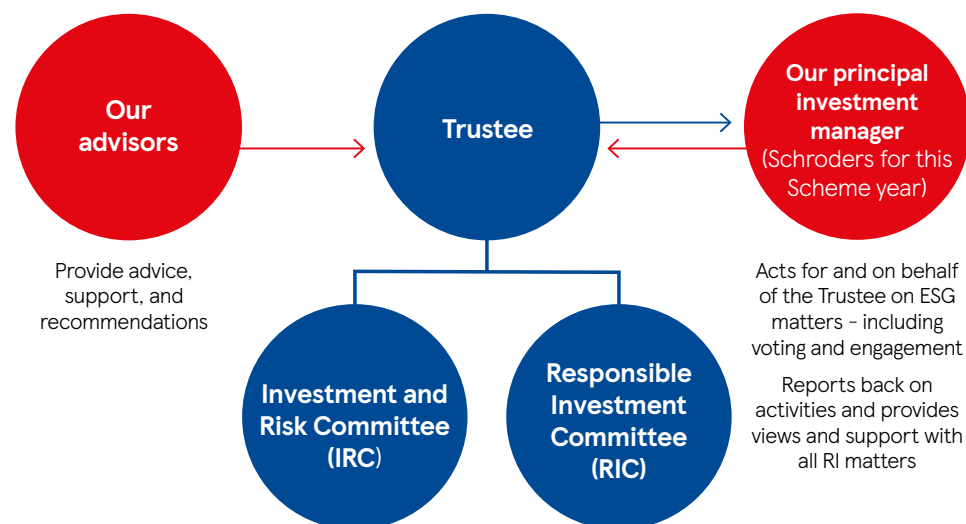
*See [Terms Used](#) section of this report for a definition'

Totals may not sum due to rounding. 2023 asset allocation reflects asset class descriptions used prior to restructuring of the portfolio that took place during 2024.

Climate Governance

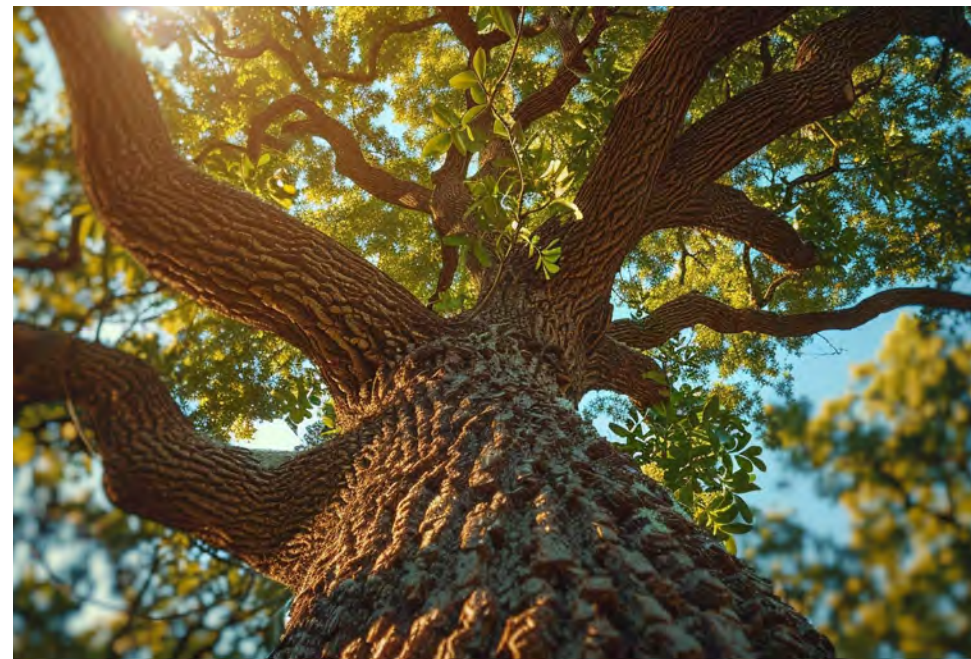
The Trustee has a robust governance structure in place, which benefits from collaboration with, and advice from, our advisors and the principal investment manager, with the aim of better identifying and assessing climate-related risks and opportunities for the Scheme.

The Trustee uses sub-committees, including a Responsible Investment Committee (RIC), which meets to discuss all aspects of ESG and supports the Trustee in managing responsible investment (RI) activities, including climate change. The RIC makes recommendations to the Trustee on identifying, assessing, monitoring, and managing climate-related risks and opportunities.



The Trustee believes that its governance structure provides the right level of expertise to make sure that its advisors are appropriately challenged and questioned, and that everything is fully understood and in the best interests of the Scheme and its 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 has ultimate responsibility for the Scheme's governance activities, its role is to review and consider any information, decisions, and proposals made by its advisors and the Committees. Having done so, the Trustee 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 its advisors.

The Trustee meets at least four times a year and makes sure that climate change is addressed throughout the Scheme's activities. This includes reviewing, discussing and challenging the information and advice it receives.

The Trustee's role over the year also included the following:

- Setting investment objectives and strategic asset allocation frameworks and taking decisions on the investment strategy.
- Setting the Trustee's investment beliefs, RI policies, and risk registers.
- Considering climate-related risk 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 by the Scheme, or on its behalf.
- Agreeing training requirements and scheduling them into the business plan.

The RIC and IRC

The RIC and the IRC provide the Trustee with updates and guidance typically quarterly on their activities, including certain decisions the RIC and IRC can take under delegation, and also make recommendations for the Trustee to consider.

They achieve this by:

- Requesting advice and getting input from the Trustee's investment, actuarial, covenant, and legal advisors, to make sure that the Trustee is 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. Commissioning detailed analysis where appropriate.
- Reporting back to the Trustee on investment advice including any advice relating to climate change, and making recommendations on the various areas in which the Trustee takes decisions on climate change.
- Reviewing the competency of advisors, including their advice on climate change, and taking action if and when any concerns are identified.

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

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

The Principal Investment Manager

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

- Providing monitoring information and support to the RIC.
- Providing information on the approaches it has taken to supporting 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 the Trustee, 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 prioritised by the Trustee.
- 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 advisors and the Tesco Pensions Team, to make sure all necessary activities are carried out, and that the required information is reported to the Trustee, the RIC, and the IRC.

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

With its advisors, the Trustee supports, reviews, and (where appropriate) challenges Schroders to make sure its actions, and the information it gives to the Trustee, is appropriate.

Tesco Pensions Team

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

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

Other Advisors

The Trustee has appointed various advisors to provide support and advice in assisting the Trustee with all aspects of the Scheme's governance activities, including climate-related risk and opportunities. These advisors include:

- Eversheds Sutherland, its legal advisors.
- Lane Clark & Peacock (LCP), the Trustee's investment advisors.
- Interpath, who provide advice on the sponsoring employer's covenant (ie Tesco'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

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

The advisors and Schroders are assessed against these objectives every year, and the Trustee uses these assessments to make sure that sufficient steps are being taken to identify, assess, and manage climate-related risks and opportunities for the Scheme.

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

When the Trustee reviews its service providers or appoints and puts 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. The Trustee expects 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:

- Following a careful review of the long-term needs of the Scheme, the Trustee decided to appoint Schroder Investment Management (Schroders) as the Scheme's principal investment manager, to replace and build on the achievements of Tesco Pension Investment (TPI). Schroders was chosen because of its deep investment expertise, alignment to the needs of the Scheme, and determination to have a positive impact on the financial future of the Scheme, society and the environment. The transfer from TPI to Schroders was completed in July 2024.

Objectives were set for LCP to work with Schroders on their responsible investment strategy and integration of Trustee reporting commitments and climate targets. Formal objectives for Schroders were set in March 2025 for the 2025/26 Scheme year, including objectives relating to climate change. We have focused on the work carried out by Schroders in this report, given its ongoing role in relation to the Scheme and because it has acted as principal investment manager for most of the year.
- Monitoring and reporting were provided at each RIC meeting by Schroders, LCP and Eversheds Sutherland. For example, Schroders provided reports covering voting and engagement activity, including examples of engagements across asset classes on themes prioritised by the Trustee. Schroders also gathered and shared data and analysis on various climate metrics with the RIC in February 2025. The Trustee reviews and challenges the information received to ensure it is appropriate. For example, during the year the Trustee, with support from LCP, challenged the concept of using normalisation of the emissions metrics proposed by Schroders, in relation to asset classes with low coverage. Further information is given in the Metrics and Targets section.
- In September 2024, the Trustee reviewed the Terms of Reference of the RIC and the associated roles and responsibilities of the Trustee's committees. Changes to the RIC Terms of Reference were made primarily to reflect the appointment of Schroders as principal investment manager.
- The RI policy (including beliefs) was reviewed in June and November 2024. The key changes to the RI policy were to reflect the move to Schroders as the principal investment manager. Updates were made to the Trustee's stewardship priorities to include the fair and decent treatment of workers. The Trustee believes it is important to have this explicitly as a priority, which is highly interconnected with its other social priorities. The RI policy was also revised to reflect the Scheme's latest commitments to industry initiatives and consideration of industry guidance, such as the Taskforce on Social Factors.

- The Trustee covered all its 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 Trustee 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.
- Alongside the annual review of advisors against strategic objectives, the Trustee reviewed its legal advisor, Eversheds Sutherland and agreed to retain them. There were no changes as a result of this review.
- The Scheme's other governance arrangements were reviewed in January 2025 with no changes recommended.

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

- The evolution of climate economics, how it can be modelled and its limitations.
- Schroders' engagement strategy, including its Blueprint report.
- Schroders' SustainEx tool - which helps the Trustee estimate of both the positive and negative impacts that companies and countries may create for society or the environment.
- Developing responsible investment themes and the Scheme's stewardship priorities.
- Training on the climate solution universe, including solutions within emerging market debt and real assets.
- Training on the fair and decent treatment of workers and the potential impact of engaging explicitly on this subject.

Climate Strategy

The Trustee's ambition is for the Scheme's assets to have Net Zero carbon emissions by no later than 2050. This section sets out the strategic approach the Trustee is taking to meet this ambition as well as, more generally, to take account of climate related risks and opportunities in its investments. The Net Zero ambition is driven by the Trustee's 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.

The Trustee's different time horizons

The Trustee has changed its definition of short-, medium- and long-term time periods for the purpose of identifying, assessing and managing climate risks and opportunities. Previously the Trustee had defined short, medium and long term by reference to specific key dates in the future (2026, 2030 and 2045). As the original "short term" date of 2026 is very close, the Trustee has opted to move to a more pragmatic approach to defining time horizons without reference to specific dates as follows:

Time horizon	Definition	Rationale for choice
Short Term	over the next 5 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 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

There was no impact on our climate strategy as a result of this change to how time periods are defined.



Assessing the strategy

The Trustee uses various tools to assess the impact of climate-related risks and opportunities on the strategy and the investments that are held by the Trustee. These include:

Completing climate-scenario analysis – to 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 its journey plan. An important part of this analysis is the consideration of how Tesco might be affected by climate-related factors, and the implications for the Scheme. The Trustee's approach to scenario analysis is evolving as the Trustee shifts to using a qualitative approach over quantitative modelling. The Trustee agreed to make this change as it considered that quantitative modelling may under-represent the potential risks of climate change.

The new 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.

The Trustee intends to focus on a qualitative approach while quantitative approaches develop but has included as an appendix to this report on the quantitative analysis carried out in the year.

- **Assessing investments** – the Trustee, with support from Schroders and its advisors, periodically (including during the Scheme year ending 31 March 2025) considers the activities of the asset managers it is invested with, or that it intends 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** – the Trustee considers a range of climate-related metrics and is provided with training and support from Schroders and its advisors on assessing which metrics the Trustee will monitor. The metrics are set out in pages 26-40 of this report.

The Trustee has received advice from its advisors on how climate-related factors may affect the investment strategy, the funding position, and Tesco. It has also considered the expected impact of these risks and opportunities on the investment strategy, the funding strategy and Tesco.

The climate-related risks and opportunities that have been identified are monitored and managed at RIC meetings and reported to the Trustee Board, through the climate-related risks and opportunities register. There was a formal review of the risk and

opportunities register including the risk ratings in February 2025, which is set out in the Risk Management section of this report.

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 is outlined below.

Investment-specific risks and opportunities include:

- **Market-wide financial risks (short to medium term)** – for example, lower and/or more volatile long-term returns, mispricing of risk and opportunities, heightened geopolitical risk and potential reduced political support for climate initiatives, and the potential for broad market instability.
- **Regulatory risks (short term)** – 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.
- **Sector or company-specific risks (medium to long term)** – for example, potential impacts on company earnings, increased risk of stranded assets or weakened investor confidence, or reputational risk impacting security prices.
- **Sector or company-specific opportunities (medium to long term)** – for example, potential growth areas as a result of new technologies or regulation, or increasing scrutiny over climate decisions and disclosures providing opportunities to make better informed decisions.
- **Variations by asset class (medium to long term)** – asset classes may be affected by climate change in different ways. Equities are likely to be the most exposed to price volatility. Downside and default risks matter for credit-related assets. Physical risks are particularly important for real assets.
- **Manager-related risks (short to medium term)** – 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.

Funding and covenant specific risks include:

- **Potential financial and demographic impact on cashflows (medium to long term)** – 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).
- **Potential impact on journey planning (medium to long term)** – 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 the Trustee may want to consider.
- **Significant changes in covenant security (medium term)** – for example, climate-related risks and opportunities and supply chain issues caused by climate change (which could impact Tesco and its ability to fund the Scheme).

The Trustee has a combined risk register. This also includes a dedicated ESG section which the RIC oversees and reviews at each of their meetings (in addition to the review of the climate-related risks and opportunities register). During each review, the RIC considers the risks in detail and updates the ratings where required.

Climate scenario analysis

Quantitative climate scenario analysis was last carried out by the Trustee in September 2023, to assess the potential impacts of climate change on the Scheme's assets, liabilities, investment strategy and funding position, as well as considering what impact climate scenarios could have on the sponsoring employer, Tesco. The results of this analysis were included in last year's [Climate Report](#). They're also summarised in [Appendix 2](#) because of reporting requirements (as it was the most recent completed scenario analysis during the Scheme year).

Instead of developing or updating the quantitative analysis for this year's reporting, the Trustee agreed to adopt and develop a new approach to its scenario analysis. This was prompted by the industry wide debate around the limitations of climate scenario analysis, including the challenge that more conventional scenario analysis approaches may not adequately allow for the complexities of the real world, including migration, political unrest and reaching climate "tipping points". The new approach to scenario analysis is explained below.

In June 2025, the Trustees met to consider the approach in more detail. The Trustee 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 the Trustee 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.

Overview of the scenarios considered

The Trustee 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

The Trustees 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 the Trustees felt that this allowed them to explore a broad range of impacts and outcomes in more detail than before.

Tipping Points

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 include the melting of polar ice sheets, thawing of permafrost releasing methane, or disruption of ocean currents. 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 already 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.

The Trustee 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. The Trustee 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 for example once this AMOC tipping point is reached.

The Trustee also reviewed potential opportunities associated with tipping points, including positive tipping points. For instance, solar energy has become the most cost-effective energy source in many countries, and electric vehicle usage is increasing rapidly. As these technologies further 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.

Less than 2 degrees warming

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

Whilst global efforts are underway to achieve Net Zero, these may not be sufficient to reach this by 2050. This is likely to mean higher temperature rises by 2100 than 1.5 degrees. With a rapid transition and multiple positive tipping points reached across the world, the Trustee believes temperatures could be limited to around 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 needed, but this market volatility should reduce as more technology becomes embedded.

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 leading to further warming putting this scenario at risk. Too high a probability should not be assigned to this scenario such that greater downsides are overlooked.

2 degrees warming is breached

This scenario aligns with the likely outcome of nations implementing the agreed Nationally Determined Contributions (NDCs). It is expected that transition risks are 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. Positive adaption opportunities do still exist as does the potential for stranded assets.

An increase in severe weather could cause more flooding in the UK, leading to property damage and business disruption, especially if supply chain infrastructure is affected. Temperature extremes could put a strain on UK infrastructure. 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.

In this scenario, adaption of the 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 in the longer term. Liabilities 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

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 ultimately 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 resulted from broader economic downturn and supply chain failure.

Conclusions from the scenario analysis discussions

The Trustee noted that higher temperature scenarios reduced the resilience of its funding and investment strategies. At the same time the food retail industry could be significantly impacted, through the impact of physical climate risk (eg flooding of Tesco stores) as well as the second order impact of supply chain and infrastructure being affected.

The Trustee discussed how they could address the risks presented including:

- Looking for climate positive investment opportunities where the potential for returns aligns with their strategy and their time horizons.
- The need to ensure liquidity available to allow them 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.
- The Trustee 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.
- The Trustee should consider regular training to ensure they continue to keep up to date on climate change risks and opportunities.
- The Trustee should continue to engage with Tesco to understand the measures being taken to manage climate risks and opportunities.

Overall, it was noted 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.

Next steps

The Trustee has already taken steps to help mitigate climate-related risk within the Scheme. This includes an ambition to reach Net Zero asset emissions 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).

As part of the Trustee's review of the scenarios to date, the Trustee agreed to consider the following next steps:

- Progress enhancements in climate reporting and analysis, to help with decision making and tracking progress.
- 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.
- Increase focus on physical risks to help provide clear and concise reporting and bring into ongoing decision making.
- Review the Trustee's current climate commitments to ensure they remain appropriate.
- Consider what best in class activity is, to ensure the Trustee continues to learn and incorporate into ongoing actions.

To ensure it continues to make a difference, the Trustee 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

Trustee's assessments

The Trustee expects its views on responsible investment (RI) to be reflected across the Scheme's whole investment portfolio, where appropriate and possible. The Trustee sets objectives for Schroders every year. These objectives include the requirement to support the Trustee in managing the climate-related risks of the Scheme. Schroders is assessed against these objectives every year.

Tesco Pension Investment (TPI) carried out a similar role to Schroders until July 2024. We have focused on the work carried out by Schroders on behalf of the Trustee, given its ongoing role in relation to the Scheme and it has acted as principal investment manager for most of the year. See the governance section for more information.

Assessments by Schroders

Schroders' role is to help the Trustee invest the Scheme's money to get the returns needed to pay pensions and other benefits to our members. This entails making new investments for the Scheme and helping the Trustee consider the impacts on strategic asset allocation over time. During the Scheme year, Schroders, acting on behalf of the Trustee, 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, including climate-related risks and opportunities that are material to their investments to support risk-adjusted returns.

This approach to ESG integration is reviewed annually 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. 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.

In making its assessment of investments within **public markets**, 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 the Trustee discusses, challenges, and monitors Schroders' progress on, but it is a consequence of the nature of the asset classes themselves.

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

- Regular engagement with third-party property managers to identify opportunities to reduce energy consumption, associated Greenhouse Gas (GHG) emissions, and associated costs.
- Regular 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, the Trustee is focused on making sure the emissions data it reports evolves and improves over time. Schroders aims to support this by encouraging the availability of meaningful climate-related information in the private markets holdings by engaging with the underlying managers to share the Trustee's expectations, and by sharing best practice to support them obtain this information.

The below case study highlights the process Schroders follows to monitor the private assets portfolio's third-party manager alignment with the Trustee's RI priorities and climate aims:

What was the issue?

Following onboarding of the Scheme's portfolio, Schroders wanted to understand how the underlying managers integrated ESG factors into their investment considerations. The purpose was to identify potential areas of weakness for future engagement, but also areas of strength where best practice could be shared across managers. This focused on the private market managers where practices are generally less transparent, and data is harder to access.

What were the engagement highlights?

Schroders' engagement process started with a review of the recommendations provided by the previous principal manager, TPI. They also identified where other Schroders' clients had exposure to gain further insight from other teams from across the business. Schroders developed an ESG Due Diligence Questionnaire ("DDQ") tailored to the Trustee's objectives and targets, which was issued to all the Trustee's private asset managers alongside a request that each manager confirm whether they are aligned with the Trustee's RI policy and stewardship priorities.

Alongside the DDQ, Schroders prioritised direct engagement with several managers based on the size of the Scheme's investment, whether each manager had provided GHG emissions data historically or if their emissions were particularly high.

As part of the engagement, Schroders discussed each manager's:

- Approach to integrating RI and engaging with its underlying investments
- Approach to the Trustee's engagement priorities
- Status on GHG emissions reporting, with the objective of either enhancing coverage and or quality (favouring reported over estimated GHG emissions data)
- Approach to assessing and managing climate risks, particularly across infrastructure and property managers

What are the next steps?

Where necessary following an engagement, a list of expectations for the remainder of 2025 was shared with the underlying third-party managers. This was tailored based on the ESG DDQ response and outcomes of the engagement calls. The requests for several of the managers focused on enhancing the provision of GHG emissions reporting, particularly moving from estimated to reported data to enhance data quality, as well as encouraging managers to set Net Zero targets where it's financially material for their sector and asset class. Schroders will continue to monitor these developments and encourage improvements.



Risk Management

Identifying and assessing climate-related risks and opportunities

The Trustee believes 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.

The Trustee uses three main frameworks and policies to govern how it identifies and assesses climate-related risks and opportunities. These are the:

Responsible Investment (RI) policy	Climate-related risks and opportunities register	Trustee risk management framework
● Sets out how the Trustee manages climate-related risks and opportunities ● Sets out stewardship priorities, including climate change	● Where the Trustee documents key climate risks and opportunities ● Used to review and assess risks and opportunities	● Sets out the overall risks of the Scheme ● Embeds climate risks with the Scheme's other key risks

The Trustee reviews the processes and governance framework it has 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 detail on current processes and frameworks, including developments over the Scheme year, are set out below.

Responsible Investment Policy

The RI policy sets out the Trustee's framework for identifying, assessing, monitoring, and managing climate-related risks and opportunities. The Trustee expects 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 the Trustee's behalf.

The RI policy states that, generally, the Trustee will expect Schroders or its other external managers to engage on financially significant ESG risks, and only divest where the company fails to engage with the Trustee's long-term goals, making the long-term risk unacceptable.

The RI policy covers the Trustee's specific policies in relation to climate and stewardship, and sets out its 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 the Trustee's commitment to aim for the Scheme's assets to reach Net Zero carbon emissions by no later than 2050. More detail on this commitment is set out on page 24 of this report.

The Trustee reviews its RI policy every year. Reviews for the Scheme year to 31 March 2025 took place in June and November 2024. In June, the key changes to the RI policy were to reflect the move to Schroders as the principal investment manager. Updates were made to the responsibilities of this role to make the Trustee's expectations clear, including alignment with initiatives, considering financial materiality of investment decisions and stewardship and engagement. Updates in November were made to the Trustee's stewardship priorities to include the fair and decent treatment of workers. The Trustee believes it is important to have this explicitly as a priority, which is highly interconnected with its other social priorities.

The RI policy was also revised to reflect the Scheme's latest commitments to industry initiatives and consideration of industry guidance, such as the Taskforce on Social Factors.

Climate-related risks and opportunities register

The Trustee's climate-related risks and opportunities 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 by its advisors, and the tools it uses to identify and assess the Scheme's climate-related risks and opportunities, the Trustee rates the risks and opportunities according to their potential impact and how likely they are to occur. This allows the Trustee to compare and prioritise which risks could be the most material. For example, the key risks that the Trustee considers 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).
- Individual risks associated with each of the assets the Trustee invests in.
- Regulatory risk (eg changes in Government response and regulatory policy, which affects global markets).

Key controls that are currently in place and next steps that can be taken to mitigate risks and pursue opportunities are included in the register. The RIC reviews and updates the register at least once every year and shares it with the Trustee for review.

The Trustee also uses the register to consider how the identified climate-related risks could impact the Trustee's risk appetite, by incorporating these into the Scheme's wider risk management framework.

Following the collection of this year's climate metrics and the assessment of progress towards targets, the register was reviewed in February 2025. This review resulted in no changes to the high-level risk and opportunities, but further detail was added around how risk and opportunities are affected by the new governance structure with Schroders, including how different asset class portfolios are managed. The Trustee also updated the register to reflect the heightened risks of changes in political sentiment or changes in regulatory requirement, which impacted likelihood and impact scores. Controls were made more robust to help manage these additional risks.

Monitoring within the Scheme's wider risk management framework

As well as maintaining a climate-related risks and opportunities register, the Trustee has embedded climate-related risks and opportunities within its 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 risk is specified and prioritised within the Trustee's dedicated risk register.

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 then identified to make sure risks are managed and controlled.

- Climate-related and other risks are considered at any meeting where those risks relate to content on the agenda. 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 – fully integrating risk 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 greenhouse gas emissions by 2050 (at the latest) and its resultant actions.
- Engagement with Schroders, to understand and monitor how ESG factors are integrated into its investment processes and how they consider the Trustee's stewardship priorities.

These and other management controls provide the Trustee with comfort around how these risks are being managed. The Trustee uses a combination of qualitative risk assessment measures (such as the climate-scenario analysis that was run after the Scheme year-end) and climate metrics to assess the potential impact of various climate-related risks.

Monitoring climate-related metrics and targets

The metrics and targets that the Trustee uses to monitor climate-related risks and opportunities to the Scheme are set out in detail later in this report. The setting and assessment of targets are embedded in the Trustee's governance, strategy, and risk management processes. For example, the Scheme's metrics and targets are reviewed every year, and the RIC and the Trustee consider the measurement of progress against the Scheme's targets every year. The Scheme's climate-related risks and opportunities 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. The Trustee's other service providers are made aware of the Scheme's targets as necessary.



Managing climate-related risks and opportunities

Once the Trustee has identified and assessed the climate-related risks and opportunities for the Scheme, it takes various steps to manage and assess these as follows:

Targets and Metrics

- Through its ambition for the Scheme's assets to have Net Zero carbon emissions by no later than 2050.
- Through the setting of climate targets to enable the Trustee to monitor its progress towards its Net Zero aim.
- By embedding the monitoring of those targets into its 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.

Strategy and Manager Monitoring

- By engaging with its investment advisor and its legal advisor, formally each quarter at RIC meetings and informally between RIC meetings.
- By expecting Schroders and the Scheme's other external managers to incorporate climate-related risks and opportunities as part of their investment processes.

Tesco

- By receiving updates on Tesco at Trustee meetings that are solely focused on covenant.
- Reviewing covenant metrics that consider the impact of climate change on Tesco, at least once a year.

Stewardship

- By exercising stewardship through Schroders and by actively reviewing stewardship activity carried out on the Scheme's behalf at RIC meetings, to make sure it meets the Trustee's expectations, or to consider escalation, as required in the case of other external managers.

Schroders' approach to managing climate-related risks and opportunities

The Trustee expects 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.

Tesco Pension Investment (TPI) carried out a similar role to Schroders until July 2024. We have focused on the work carried out by Schroders on behalf of the Trustee in the report, given its ongoing role in relation to the Scheme and as it has acted as principal investment manager for most of the year. See the governance section for more information.

Investment appraisal, monitoring, and engagement

Climate-related risks and opportunities, and their impact, are considered before a new investment is made, and on an ongoing basis from then on. Engagement with the investments 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 aims, by considering the portfolio's exposure to greenhouse gas emissions as well as considering the extent to which investments are engaging and aligning with the Net Zero aim. This helps Schroders and the Trustee understand where the Scheme has exposures to more emission-intensive entities, how the investments compare with sector peers, and how Net Zero alignment is being approached.

The Schroders team also uses a proprietary ESG model called SustainEx to evaluate the Scheme's public market assets. SustainEx provides the Schroders' investment teams with an estimate of both the positive and negative externalities that companies and countries may create for society or the environment. This gives the team a comprehensive view of a company's risk profile and leads to more sustainable and informed investment decisions. Schroders reports on analysis from SustainEx at each RIC.

Throughout the Scheme year, Schroders reported back to the Trustee 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 insights to the Trustee on the latest activity undertaken as well as an opportunity to challenge Schroders on the direction of the portfolio so that it aligns with Trustee policies and beliefs.

Climate-related opportunities

The Trustee 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. At the November 2024 RIC meeting, the Trustee received additional training on climate solutions from Schroders to better understand the nature of the opportunity set and whether there is scope to include further investment in climate solutions that is in line with the Scheme's investment strategies and risk appetite. It was agreed that the Trustee would look to increase investment in positive climate solutions by aiming to invest 5% of Scheme assets by 2030 where in line with the Trustee's fiduciary duties. The Trustee is working with Schroders to create a plan around how this commitment could be achieved.

Reporting and updates from Schroders

Schroders reports back and provides updates to the Trustee and its various sub-committees as relevant and at each Trustee and sub-committee meeting. These 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 the Trustee's consideration of key risks within the portfolio and, at RIC meetings, reported back on the stewardship activity carried out on the Trustee's behalf.

Considering divestment

Generally, the Trustee will expect Schroders, or its other external managers, to engage on financially significant ESG risks and only divest on the grounds of ESG where the company fails to engage with the Trustee's long-term goals, whereby the long-term risk is unacceptable.

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. Schroders would consider divestment or would consider not making a further investment where assets are illiquid. For private market assets or significant external managers, before divestment takes place, there would be a series of engagements with the Trustee, as part of the regular quarterly monitoring from Schroders' RI team.

Schroders engages with the Trustee on the rationale for any decisions as part of the Trustee's regular monitoring at the IRC and RIC meetings.



Engagement and other stewardship activities

The Trustee invests responsibly in delivering its objective to pay the right benefit to the right person at the right time and views stewardship as an important part of this. The Trustee's specific policies on stewardship are included within its wider RI policy.

Over the year, the Trustee considered its stewardship processes in detail, including its processes for monitoring significant external investment managers through reporting from Schroders. During the year, the Trustee also received in depth training of Schroders' stewardship and engagement procedures and ensured they aligned with its RI policy.

The Trustee aims to be a responsible steward of its 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, it considers the impact of ESG factors, including climate change, on its investments. Where it can, and consistent with its legal obligations, the Trustee also considers the impact of its investment practices on the economy, society, and the environment.

The Trustee's 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 the Trustee's RI policy.
- Working collectively with others to advocate for policies that support long-term value creation, where relevant.

More information on the Trustee's stewardship activities can be found in its Implementation Statement and its 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.

Climate Metrics and Targets

To help understand the Scheme's exposure to climate risks and to help highlight climate opportunities, the Trustee continues, where possible, to collect data for, and review, climate metrics for the assets that the Scheme invests in.

Consistent with last year, the Trustee 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. The Trustee also chooses to include an additional optional emissions metric, the Weighted Average Carbon Intensity (WACI), as it considers 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.

The Trustee receives an annual update on its climate metrics from its advisors, LCP, to support their understanding and to assist with their decision over the choice of metrics. This includes how each metric is calculated and the context in which it should be used.

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

Further details on these metrics, how they are calculated, and why they were chosen is in [Appendix 3](#).

The Trustee reviews the metrics it collects data for and the targets it has set at least once each year. This year, the move to Schroders has resulted in some changes to the methodology used for some metrics, as the Trustee took the opportunity to review the methodologies used.

Key differences include:

- Moving to the Schroders' Net Zero Alignment Framework for categorising the alignment of each of the Scheme assets (see [Appendix 3](#)).
- A move to reporting WACI in USD rather than GBP to better align with company revenue reporting and reduce exchange rate volatility impacts.
- Adopting normalisation of emissions. This process uses the data that is available to approximate emissions where no data is available within each asset class, scaling up emissions to give an estimate of total Scheme emissions, and therefore a better indication of what total emissions might be.
- MSCI was used as a single data source for all public equities and corporate fixed income for the first time, providing more consistency.

Due to changes to the methodology and the changes to classification of some assets within the portfolio this year, the Trustee has included restated 2023 climate data in this report to make year on year comparison more useful.

The Trustee has combined the collated emissions metrics across different asset classes where it was meaningful to do so, and where methodologies were aligned. Due to different methodologies being used for private market assets, these assets are no longer aggregated in this report.

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

The Trustee reviewed the assets that were in scope for collecting climate metrics but made no changes this year.

Our targets

Net Zero by no later than 2050

We're aiming 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.

By 2030:

**70% of assets
aligning to
a Net Zero
2050 target**

We're aiming 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 we are aiming to have reduced the Weighted Average Carbon Intensity level of 'in scope' assets in 2019 by half.

**Engaging with
90% of our
investments**

We're aiming 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.

The Trustee's ambition is for the Scheme's assets to have Net Zero carbon emissions by no later than 2050. To support this commitment, the Trustee has:

- 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 ("UN FCCC") Race to Zero campaign.

To support our commitment to aim for the Scheme's assets to have Net Zero carbon emissions by no later than 2050, the Trustee has set the following targets:

- An alignment target.
- An emissions reduction target.
- An engagement target.
- A climate solutions target – this is a new target that was agreed during the year.

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

During the year, the Trustee agreed to increase investment in climate solutions by aiming to invest 5% of Scheme's portfolio by 2030.

The Trustee also reviewed its existing targets this year. The Scheme's targets were retained but with some amendments to the methodology for assessing progress against these targets:

- Alignment target – this now reflects the Schroders Net Zero Alignment framework (see [Appendix 3](#)).
- Emissions reduction target – sub-portfolios are no longer directly referenced within the target, to allow flexibility for future portfolio changes, but the target is still monitored at the sub-portfolio level.
- Engagement target – this now reflects that engagement is tracked over a 24-month period (no specific time period was included in the target previously).

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

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

Climate Metrics and Targets: Summary

Data Coverage and Quality

The Trustee has reported emissions data for 86% of assets this year.

This year, improvements have been made to the reporting of the assets included in reporting. This includes bringing the full direct property portfolio into reporting – assets being redeemed or earmarked for sale were not previously included.

There were also improvements in data coverage, in particular in infrastructure, private credit and property. There has been a decrease in coverage in corporate fixed income. This is driven by the change in the corporate fixed income portfolio to add emerging market and high yields bonds, where less data is available typically.

To help measure the changes in quality of public equity and corporate fixed income going forward, MSCI is now used as the single source of data for all listed investments.

The Trustee considered if it was able to collect data for its private equity mandates for the first time, however coverage and quality of data was very poor. Improving the coverage and quality of this data is an engagement priority for Schroders and the Trustee within unlisted markets.

Emissions

There has been a general trend in improvement of overall emissions figures, which is shown through emission intensity data. **The carbon footprint for all asset classes, apart from corporate fixed income, has reduced.**

- The inclusion of emerging markets and high yield bonds within the corporate fixed income portfolio increased the carbon footprint. The Trustee debated this change and was comfortable with the impact on the portfolio. In particular, the Trustee recognised that the higher emissions it would report were not an increase in real world emissions and noted the importance of engaging with higher emitting companies to encourage improvements in their practices for real world impact.

Alignment

Alignment and engagement metrics are now included for all assets apart from private equity and alternatives. Investments in scope for the alignment target that are aligning or aligned with Net Zero have increased from 30% to 35%, however those that are aligning, aligned or committed to align fell from 67% to 62%. This is mainly due to including more property data this year for assets that are ‘not aligned’. This has been identified as a priority for improvement.

Reporting Improvements

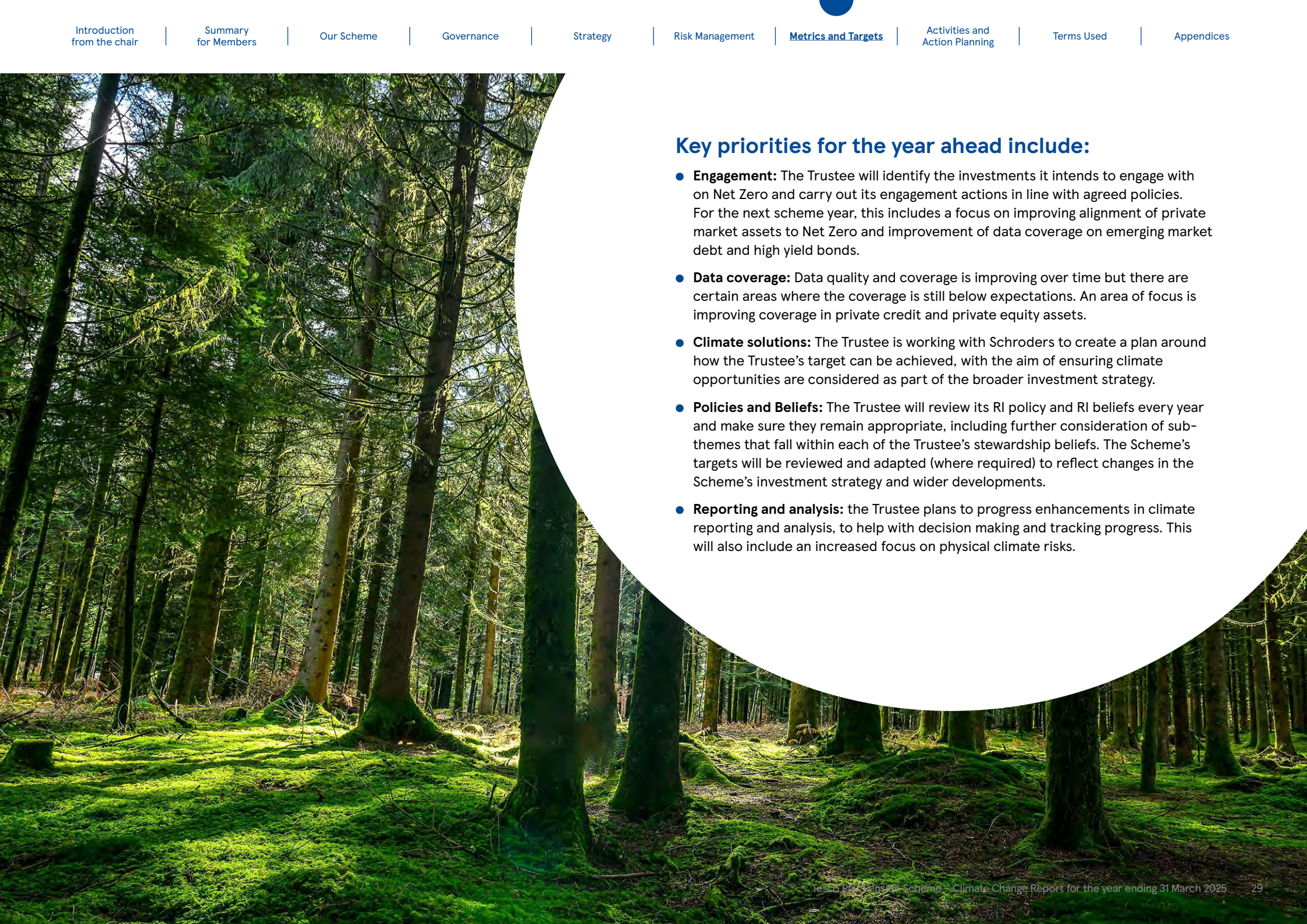
Improvements in reporting following the appointment of Schroders include:

- Standardising data and reporting methods across asset classes, where possible, making comparisons between asset classes easier and to help with future year on year comparisons.
- Encouraging private market managers to disclose more data to give the Trustee a better understanding of the Scheme’s current position.
- Identifying key areas to focus on next year to improve data and reporting.

Performance against targets

The Trustee is, so far, on track to meet its Net Zero targets:

- **Alignment target:** 62% of in scope Scheme assets are aligned, aligning or committed to align compared to a target of 70% to be aligned/aligning by 2030. For this metric, in scope means listed equity, listed corporate fixed income, infrastructure and property assets.
- **Emissions reduction target:** Assets are on track for the targeted 50% emissions reduction in Weighted Average Carbon Intensity (WACI) by 2030. This is against a base year of 2019, with the Trustee monitoring the equity and corporate fixed income sub-portfolios.
- **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%.
- **Climate solutions target:** 1% of assets were invested in renewable infrastructure funds at the point of review in November 2024. During the year the Trustee set a target to aim to invest 5% of Scheme assets in positive climate solutions by 2030.



Key priorities for the year ahead include:

- **Engagement:** The Trustee will identify the investments it intends to engage with on Net Zero and carry out its 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:** The Trustee is working with Schroders to create a plan around how the Trustee's target can be achieved, with the aim of ensuring climate opportunities are considered as part of the broader investment strategy.
- **Policies and Beliefs:** The Trustee will review its RI policy and RI beliefs every year and make sure they remain appropriate, including further consideration of sub-themes that fall within each of the Trustee's 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:** the Trustee plans 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.

Data Quality and Coverage

Data quality measures the proportion of the portfolio for which the Trustee has good quality climate data. Data reported by companies is seen as better than data that is estimated by models as described in [Appendix 3](#).

Working with companies and external managers to improve the availability and quality of climate data continues to be a priority for the Trustee and Schroders, and data quality is expected to improve over time. To give an indication of trends, 2023 data is included to compare against the 2024 data.

The Trustee has continued to see some progress in data availability and quality this year:

Data coverage for listed equities has stayed broadly the same since the previous report, but data quality has improved. This improvement in quality is due to a few factors including changes in the underlying companies following changes to the investment strategy as well as the adoption of MSCI as a data provider.

For the corporate fixed income investments, coverage has reduced slightly with the introduction of emerging market and high yield debt to the portfolio. Quality has also reduced as the reporting from companies within high yield and emerging markets is generally lower.

For private markets, coverage across property is 100% for directly held property and Project Gold (a vehicle that holds an equity interest in around 80 Tesco properties), however there has been a reduction in coverage for indirect property. This is due to the inclusion of funds in redemption for the first time, which were previously excluded and so not reflected in previous coverage calculations.

There has been a fall in Infrastructure coverage as Schroders and the Trustee introduced a more stringent framework, requiring scopes 1 & 2 and scope 3 emissions to be reported separately. Schroders will be working on behalf of the Trustee to improve data coverage and quality for these assets as a priority for the coming year.

This is the second year in which the Trustee has included private credit data in its climate report. Data quality has improved, with all but one manager reporting scopes 1 & 2 and scope 3 separately. However, the data coverage for this asset class is still lower than desired, at 43% (vs 33% last year). Schroders will continue to engage with the managers on the Trustee's 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 3](#).

		2023			2024		
Data coverage and quality		Data Coverage	Data Quality		Data Coverage	Data Quality	
			Reported	Estimated		Reported	Estimated
Listed Equities	Scopes 1 & 2	99%	82%	17%	99%	97%	2%
	Scope 3	99%	24%	75%	100%	86%	14%
Corporate Fixed Income	Scopes 1 & 2	96%	93%	3%	87%	79%	8%
	Scope 3	95%	71%	24%	86%	57%	29%
Project Gold	Scopes 1, 2 & 3	100%	73%	27%	100%	100%	0%
Direct Property	Scopes 1, 2 & 3				100%	32%	68%
Indirect Property	Scopes 1, 2 & 3				74%	35%	39%
Infrastructure	Scopes 1 & 2				86%	50%	36%
	Scope 3				31%	16%	15%
Private credit	Scopes 1 & 2	33%	15%	18%	44%	16%	28%
	Scope 3				43%	15%	28%
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%

LDI and sovereign fixed income have been included in this table. Data is reported by governments but lagged by 1-3 years, so the data is categorised as estimated. Certain information ©2025 MSCI ESG Research LLC. Reproduced by permission.

The case study below outlines an engagement with an Infrastructure manager within the portfolio to improve data availability:

What was the issue?

The fund is a diversified infrastructure strategy with investments across Europe and the UK. The fund's ownership changed following a spin out of the infrastructure management team into a new entity. After taking on the Scheme's assets, Schroders engaged with the manager to understand how climate change would be incorporated into investment decision-making, and the information that would be reported to investors.

What actions did Schroders take?

In 2024, following take-on of the Scheme's assets, Schroders recognised that the previous managers of the fund had provided the Scheme with GHG emissions data for the purposes of TCFD reporting. However, given the recency of the spin-out, this had not yet been a focus for the new management team.

Schroders discussed this with the manager directly and carried out a collaborative engagement with another investor. By working closely with the management team, Schroders obtained the necessary data and were able to include this in the Scheme's annual reporting.

What are the next steps?

Schroders communicated with the manager that, as an investment firm with a predominantly UK and European client base, the provision of GHG emissions data for annual reporting is expected. The manager has confirmed their understanding of the Scheme's expectations and has expressed willingness to engage further in order to support the Scheme's requirements.





The below case study highlights Schroders' actions on improving emissions data and disclosure processes for indirect property investments:

What was the issue?

Indirect real estate investment presents challenges in climate change target setting and data collection, given information on the underlying investments sits with third-party managers. Depending on the underlying asset classes and the leasehold agreement, energy procurement and decarbonisation activity may also be the responsibility of occupiers, rather than the third-party manager. Engagement often centres around opportunities to share Schroders' approach with third party managers in setting or communicating Net Zero targets and improving data collection or disclosure processes.

What actions did Schroders take?

Engagement focused on follow-up to initial emissions reporting data collection exercises. Managers who faced challenges in providing complete or detailed data were contacted to request clarifications or supporting asset data, to enable benchmarking of emissions. Where emissions data was unavailable, supporting resources were offered to managers and advice on sourcing data was provided. These engagement efforts helped to improve the accuracy of benchmarks used.

Where details of Net Zero commitments were missing or unclear, a questionnaire was issued to managers to confirm the scope of target coverage, timeframes of commitment, alignment with sector-relevant frameworks and details on activity for decarbonisation initiatives. This resulted in the sharing of asset-level and fund-level data and case studies from managers, which has improved Schroders' understanding of the climate alignment of the portfolio.

What are the next steps?

Schroders plans to provide templates for TCFD-aligned climate related data collection and reporting to managers struggling to aggregate their underlying investment data. Schroders has also offered dedicated workshops with managers to provide guidance on appropriate Net Zero target setting programmes.

Emissions metrics

In this section, we've included emissions metrics over the two years to 31 December 2024. For 2023, emissions have been restated to provide a better comparison with the normalised 2024 data.

Scheme assets being reported for emissions metrics include equities, corporate fixed income, property assets, infrastructure, and private credit. Due to differences in methodology, LDI and sovereign fixed income emissions metrics are shown separately.

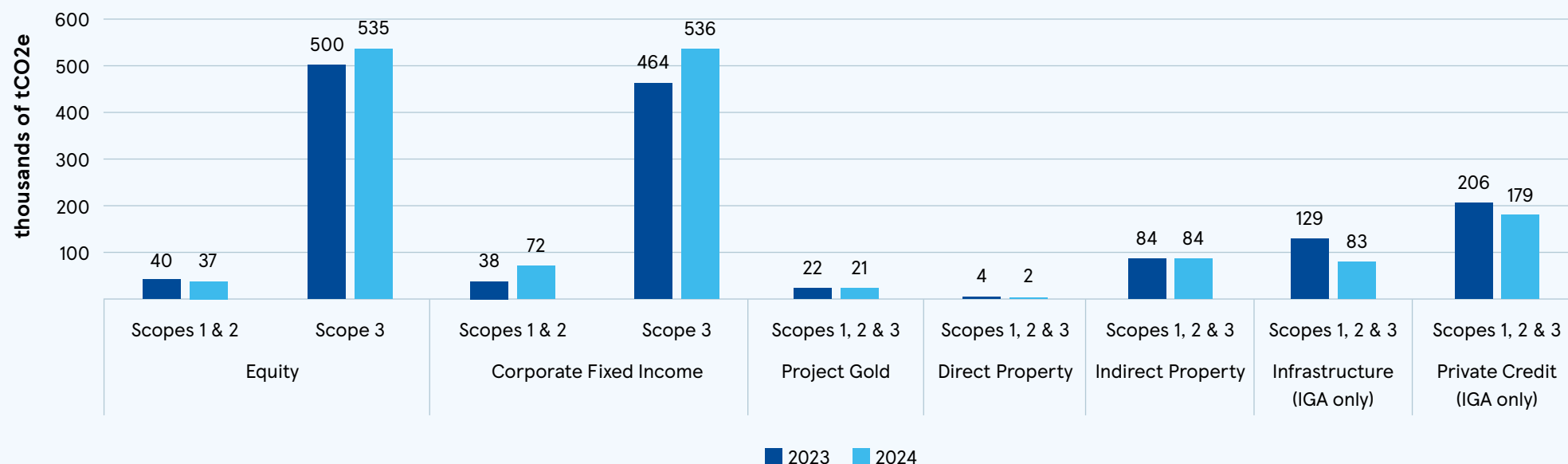
Absolute Emissions

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 for the first time, using the part of the portfolio for which there is data to estimate the total portfolio emissions. Last year's results have also been normalised for comparison purposes; however, the infrastructure and private credit comparisons contain only the subset of the current portfolio that was at that time considered part of the Income Generating Assets (IGA) portfolio. Emissions for the full portfolios are reported in [Appendix 3](#). The Trustee expects comparability to improve over time as climate metric reporting becomes more developed and there will be fewer changes to methodology.

For comparing data year on year, infrastructure and private credit data has been aggregated for scopes 1, 2 and 3 as this is how the metrics data was gathered in the previous year.

Over the year, the absolute emissions figure has increased. This is in part due to an improvement in data coverage, particularly for scope 3 emissions. There has been an increase in corporate fixed income emissions due to the introduction of emerging market and high yield debt. The increase in emissions for private credit is largely due to changes in asset categorisation this year – with more assets now included in this section of the portfolio.

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

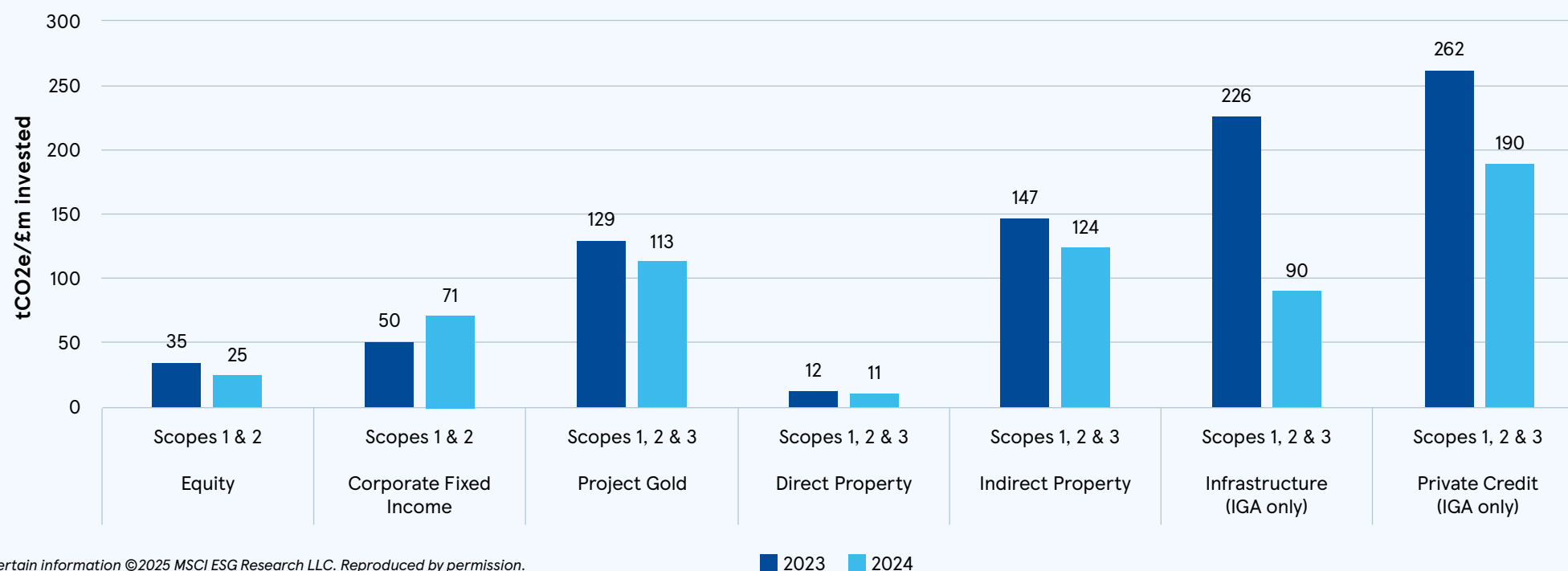


Carbon Footprint

The carbon footprint metric measures tonnes of greenhouse gases emitted per £m invested. For listed equities this metric has decreased over the year. This was partly due to the change in composition within the equity portfolio after it transitioned to Schroders.

The corporate fixed income carbon footprint has increased due to the introduction of emerging market and high yield debt investments. This was a strategic decision to improved net investment returns, made by the Trustee, and the expected increase in emissions intensity was considered as part of the decision. The previous portfolio was mainly investment grade corporate bonds, and these companies produced lower emissions on average. When looking at investment grade corporate bonds on their own, the carbon footprint decreased from 50 to 38 tCO₂e/£m invested.

For private markets, carbon footprint has reduced across each asset class, most notably in infrastructure and private credit. For both of these asset classes, emissions have reduced due to the use of better quality data provided by external investment managers.



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. The approach taken is different to the one adopted in last year's report and reflects the difference in approach recommended by Schroders, which is in line with latest guidance. However, previous year's figures have not been restated. A full description of the methodology is included in [Appendix 3](#).

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.

LDI portfolio

Metric	2023	2024
Emissions by GDP-PPP adjusted (tCO ₂ e/GDP (Int\$))	112	93
Emissions per capita (tCO ₂ e/capita)	6.3	5.5

Sovereign fixed income – non LDI

Metric	2023	2024
Emissions by GDP-PPP adjusted (tCO ₂ e/GDP (Int\$))	197	431
Emissions per capita (tCO ₂ e/capita)	12.5	7.4

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 613,000 tCO₂e.

Non-LDI sovereign fixed income emissions have increased due to the higher allocation to emerging market countries with manufacturing dependent economies. The total emissions for the non-LDI sovereign fixed income portfolio was estimated as 74,000 tCO₂e.

The below case study outlines the Trustee's 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, the Trustee can use its influence to encourage the action needed on systemic risks, including climate change.

What were the engagement highlights?

Over the 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.

In July 2024, the Trustee 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 the Trustee's request with a written plan to address the noted areas. This included specific actions the manager intended to take. The manager agreed to report back to the RIC in 12 months' time.

What are the next steps?

In June 2025, the LDI manager attended a RIC meeting and gave an update on how it has developed its approach following the Trustee's engagement. Improvements were noted in several categories. However, the RIC noted that further improvements could still be made.

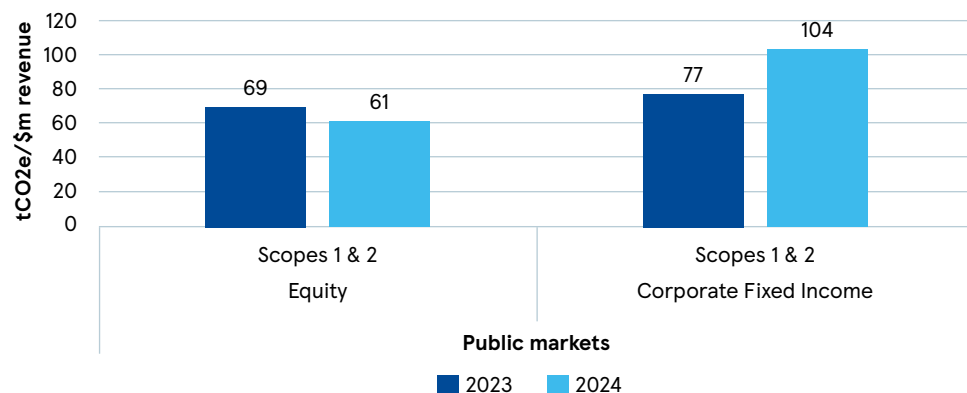
The Trustee will continue to engage with the LDI manager on this topic, keeping practices under review and seeking best practice action in this important area.

Emissions Reduction target

The Trustee has set a target a 50% reduction in the Scheme's Weighted Average Carbon Intensity, a measure of carbon usage per \$m invested, by 2030. The reduction target is relative to the base year of 2019. This target currently covers scope 1 & 2 emissions for the listed equity and corporate fixed income assets. Other asset classes may come into scope over time. The Trustee has set this interim target together with its commitment to making progress towards the aim to achieve Net Zero carbon emissions by 2050 or sooner.

Weighted Average Carbon Intensity (WACI)

Within the Scheme year, the Trustee decided to change the reporting of WACI from GBP to USD to better align with the currency of company reporting of the portfolio and reduce exchange rate volatility. More information on this is given in [Appendix 3](#). To aid with comparing results with last year, 2023 WACI figures have also been converted to USD.



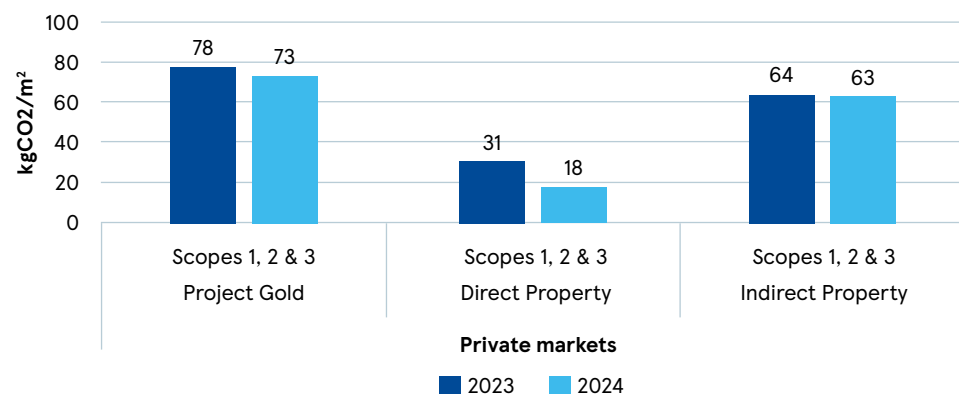
For the equity portfolio, the scope 1 & 2 WACI reduced, mainly driven by moving from a passively managed portfolio to an actively managed portfolio with Schrodgers. As now the portfolio is actively managed, it has been constructed to align with the Trustees climate (and wider responsible investment) aims.

The WACI for corporate fixed income increased over the Scheme year from 77 tCO2e/\$m revenue to 104 tCO2e/\$m revenue. Like the other metrics, this increase was due to strategic allocation changes, moving from investment grade bonds to incorporate high

yield and emerging market bonds. The impact on WACI was considered at the point of investment and it was determined that despite the increase, the Trustee 2030 target could still be achievable while meeting the Trustee's fiduciary duties to Scheme members and beneficiaries.

The WACI for corporate fixed income and equity portfolios together has decreased 65% against the 2019 reference level. This means that the WACI emissions reduction is on track to meet the target levels of reduction by 50% (by 2030).

Property – Intensity by floor area



The emissions intensity of properties held within Project Gold fell slightly over the year due to reduced energy usage.

Direct property emissions fell quite substantially. This was mainly due to the sale within the Scheme year of a healthcare research facility which was a large allocation in the portfolio with a high carbon intensity due to its industry.

Indirect property emissions are very similar to last year's figures, even though all property funds have now been included this year including those that may be sold next year.

Portfolio alignment

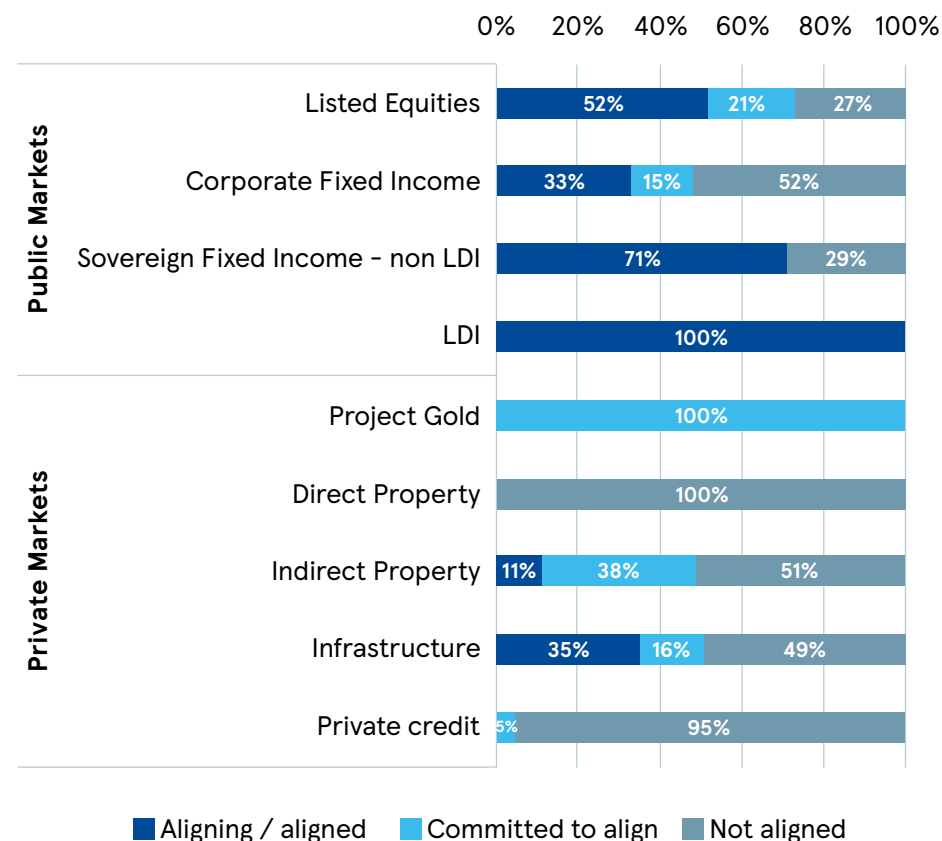
To assess whether investments are aligned with the Trustee's Net Zero target, Schroders (on the Trustee's behalf) has assessed each of the Scheme's assets against the Schroders' proprietary Net Zero Alignment Framework (see [Appendix 3](#)).

For public markets, the proportion of companies viewed as 'aligned' or better has increased slightly, progressing towards the Trustees goal of 70% by 2030, with equity holdings closer to target than corporate fixed income.

For private markets, the alignment categorisation has fluctuated across asset classes since last year, with improvement across infrastructure and indirect property through the establishment of better targets. There was a deterioration in private credit alignment due to the switch to the Schroders' framework, which requires holdings to report emissions to be considered as being 'committed to align'.

A large proportion of indirect property funds are not aligned. As part of their ongoing engagement schedule, Schroders aims to engage on behalf of the Trustee with the managers of these funds with the objective to improve this metric, focusing on longer term hold assets. Private credit will also be a focus for engagement.

LDI is categorised as 'aligned' as the UK has a Net Zero target written into law.





Alignment Target

The Trustee has 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 aims. This target is revisited each year to make sure it remains appropriate. This year the Trustee considered the change in impact that changing alignment definitions for public markets to those of Schroders’ proprietary Net Zero Alignment Framework would make, and decided to keep the target the same, even though the framework’s definitions are more prescriptive and more stringent.

For 2024, Schroders has estimated that 35% of the assets within scope for the target are classified as ‘aligning or aligned’ with a further 27% have taken steps toward this status. These figures are slightly different to the previous year with higher proportion in the ‘aligning or aligned’ but a smaller proportion above the ‘not aligned’ level.

Although the aligning or better has not improved significantly in the Scheme year, the Trustee aims to continue to strongly encourage underlying companies and investments to move towards Net Zero. With the support and expertise of Schroders, the Trustee believes the Scheme can make strides towards its ambition for 2030 over the next few years. Areas that Schroders will be focusing on in the next year to improve this score, include indirect property and private credit where alignment is weakest. The Trustee agreed to retain the existing target for the Scheme.

Scheme level	Aligning or better (AUM%)	Committed to Align (AUM%)	Not aligned (AUM%)
Baseline (2019)	32	26	42
December 2023	30	37	33
December 2024	35	27	38

Engagement target

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

During the Scheme year, the Trustee's target to engage with at least 70% of financed emissions was achieved, with Schroders engaging with 86% of financed emissions in the 24-month period to 31 December 2024. Engagements took place across all asset classes. While we note that Schroders wasn't appointed for the duration of the 24-month period, we note that the engagement target was met for the Scheme through engagements made over the last year.

The Trustee uses engagement as a key tool to progress towards its Net Zero target and forms part of the key focuses in the Trustee's RI policy. The Trustee expects its investment managers to consider stewardship as an integral part of their investment process. Schroders, on the Trustee's behalf, carries out a range of activities to support this Net Zero aim.

In order to implement the Trustee's responsible approach to investment, Schroders engaged with companies which the Scheme invests in, on matters including the Trustee's key engagement priorities. There are several ways to engage with companies to reflect the aim to transition to Net Zero, including discussions with senior management, and voting on key resolutions when shares are held by the Scheme. 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 its property managers and tenants to improve their energy efficiency.

With support from its advisors and Schroders, the Trustee periodically considers the asset manager mandates it has set, in the context of climate-related risks and opportunities, and whether they should be amended to better reflect the Trustee's climate-related aims.

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. The Trustee also considers 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 the Trustee's approach to voting and engagement can be found in its RI policy and a summary of voting and engagement for the Scheme year is set out in this year's Implementation Statement.

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



The case study below explores Schroders' engagement with a multinational utility company, on decarbonisation and developing a transition strategy:

What was the issue?

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, the Trustee can use its influence to encourage the action needed on systemic risks, including climate change.

What actions did Schroders take?

During 2024, Schroders held a series of calls with the company and its US subsidiary to discuss:

- **Climate policy engagement and disclosure**, including the approach to lobbying on the energy transition. The engagement concluded with recommendations to increase transparency, particularly on gas, and to disclose any misalignment with industry association positions on climate policies.
- **A formal transition strategy** with key performance indicators and improvements to their stakeholder management approach. The company shared details of an internal initiative to align the interests of workers, communities, suppliers, and climate across new, operating, and closing assets.

- **Climate governance**, including board structure and ESG-linked compensation. Schroders asked the company to evolve the climate performance conditions linked to remuneration in line with the company's strategic plan and climate strategy. Schroders also requested a board skills matrix to identify more specifically the climate and energy transition skills on the board. The company acknowledged Schroders' request and has taken it under consideration.
- **The methodology of the Climate Action 100+ benchmark**, as well as progress on reducing scope 1 emissions, challenges in decarbonising gas distribution, plans for renewable capacity growth (including green hydrogen), and the just transition. The company highlighted plans to grow renewable capacity by 2026.

What are the next steps?

Schroders is encouraged by the dialogue and will continue to engage with the company on climate change-related matters, as well as monitoring their progress on the matters discussed.

Climate solutions target

The Trustee has agreed to increase investment in positive climate solutions by aiming to invest 5% of the Scheme's portfolio by 2030, to support its Net Zero commitment.

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% of Scheme assets in November 2024.

The Trustee has undertaken training to better understand the opportunity set and how further investment in climate solutions can be made, while remaining in line with the Scheme's investment strategies and risk appetite.

The Trustee is working with Schroders to create a plan around how this aim can be achieved, with the aim of ensuring climate opportunities are considered as part of the broader investment strategy.



Climate-related activities and action planning

The Trustee is using the IIGCC Net Zero Investment Framework to support its work associated with responsible investment, our Net Zero commitment, and action planning.

Net Zero action planning steps taken

The Trustee has completed the following actions to help achieve our Net Zero commitment. These are all key stages of the Trustee's climate action plan.

- **Put a suitable governance framework in place:** The Trustee uses a committee structure to make sure the right level of time and expertise is being spent on key RI matters, including Net Zero. The Trustee's RIC supports the Trustee in its research and decision-making in this area. Clear roles and responsibilities have been set for the RIC, Trustee, our advisors and Schroders, with training received on key topics.
- **Reviewed our formal Responsible Investment policy:** As part of this annual review of the RI policy, the Trustee revisits its investment beliefs around responsible investment. The Trustee includes climate change as one of its stewardship priorities for the Scheme. This year, updates were made to align the stewardship beliefs with Schroders, and to formally expand the "Social" stewardship priority to reference fair and decent treatment for workers. Other minor changes were made to reflect the move to Schroders as the principal investment manager and the responsibilities of this role to make the Trustee's expectations clear.
- **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 86% of the Scheme's portfolio as at 31 December 2024, which is an improvement on last year's figure of 82%.
- **Set targets and objectives and a Net Zero monitoring framework:** The Trustee has agreed to a set of metrics that it will use to assess its Net Zero progress with a clear target to allow for ongoing assessment. Monitoring of this forms part of the Trustee's regular monitoring with the aim of making sure that alignment to Net Zero is incorporated into all future investments, as well as current investments. As noted, this year the Trustee also set a new climate solutions target for the Scheme.
- **Continued to monitor our climate-related risks and opportunities register and climate within our wider Scheme risk register:** We have continued to review and refine our climate-related risks and opportunities 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 risk register has also been incorporated into the Scheme's wider risk management framework.
- **Strengthened our stewardship, engagement, and escalation plan:** The Trustee monitors stewardship and engagement activities carried out by Schroders and has had training sessions on stewardship to develop its knowledge. The Trustee has discussed its escalation plan for engagement with Schroders. Schroders reports on its engagement activity to the Trustee as part of its standard reporting, including specific Net Zero-related provisions.
- **Advocacy and participation in industry groups:** The Trustee is an asset owner supporter of Climate Action 100+, the largest collaborative group of investors in the world, to engage with companies on climate change. The Trustee is also a signatory to Nature Action 100. Advocacy and participation in industry groups is an important engagement tool and the Trustee sees this as a key way to influence and engage on climate and other ESG factors.

- In addition to the collaborations of the Trustee, 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 were a founding signatory to the CA100+, a five-year collaborative engagement project to engage more than 100 of the world's largest corporate GHG emitters. In 2024, Schroders led two CA100+ company engagements and supported several other company collaborative engagements as part of the initiative. They co-led the CA100+ power utilities working group for Europe and contributed to research from this working group on scope 3 and grids.
 - **ICCR:** The Interfaith Centre on Corporate Responsibility (ICCR) is a US-based coalition of faith-based and values-driven organisations that promotes corporate accountability on social and environmental issues. On climate change, ICCR has active engagement programmes on climate lobbying banks. In 2024, Schroders joined engagements on just transition and methane emissions reduction.
 - **ICSWG:** The Investment Consultants Sustainability Working Group (ICSWG) is a UK-based working group that brings investment consulting professionals together to tackle the latest challenges in the UK institutional investment industry. Schroders have been an active member for several years across multiple workstreams.
 - **IIGCC:** Institutional Investors Group on Climate Change. As signatories to the IIGCC, Schroders collaborate with the investment community to drive significant progress by 2030 towards a Net Zero and resilient future. In 2024, they were a member of various working groups, including: Real Estate, Renewables, Sovereign Fixed Income and Country Pathways, Adaptation and Resilience and Just Transition. They engage collaboratively through the IIGCC's Net Zero Engagement Initiative and the Engagement and Research Banking group.
- **Training on climate change and related factors:** The Trustee has received a number of training sessions during the Scheme year, to help make sure it has the necessary knowledge to address climate-related risks and opportunities. As referred earlier in the report, training topics this year were climate metrics and targets, how climate risk is considered in economic modelling, Schroders' engagement strategy, developing responsible investment themes and the Scheme's stewardship priorities, and a session to understand the Schroders' SustainEx tool. The latter is used by Schroders to help the Trustee estimate both the positive and negative impacts that companies and countries may create for society or the environment.



Actions we plan to take

The Trustee has stated its intention to manage climate-related risks and opportunities to the Scheme, and to achieving its Net Zero commitment. The Trustee will review and develop its approach, to make sure it remains suitable and effective over time, and appropriate in the context of the investment strategy and its wider fiduciary duties.

The Trustee and the RIC 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 commitment:

- **Continue to develop knowledge with regular training on climate change, risk, and opportunities.** To make sure they remain up to date on the latest developments and have the right knowledge, the Trustee and the RIC will continue to have regular training on climate change and on other RI factors, such as nature and biodiversity. The RIC will also consider climate change and Net Zero considerations, as well as other ESG factors.
- **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.
- **Review the Trustee's RI policy and RI beliefs every year** and make sure they remain appropriate, including further consideration of sub-themes that fall within each of the Trustee's stewardship beliefs.
- **Review the Scheme's targets every year** and adapt them (where required) to reflect changes in the Scheme's investment strategy and wider developments or changes in best practice.
- **Monitor progress towards the Scheme's alignment, carbon reduction, engagement and climate solutions targets** and take action to support progress in achieving them (more detail on targets is set out in the [Metrics and Targets Section](#)).
- **Integrate the Net Zero commitment and the metrics and targets that the Trustee has selected as part of 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.
- **Development of our approach to climate solutions.** The Trustee is working with Schroders to create a plan around how this aim can be achieved in a way that is in line with the Scheme's investment strategy and risk appetite.

- **Consider our approach to nature** to target a nature positive approach to Net Zero – including developing a better understanding of nature-related risks, engagement activity in this area and consideration of how nature can be considered within our strategy.
- **Ongoing engagement.** The Trustee will identify the investments it intends to engage with on Net Zero and carry out its engagement actions in line with agreed policies and targets.

In the Trustee's view, these actions make sure the Trustee has made its best possible effort, taking account of its fiduciary duties and the practical constraints to reduce emissions, to use engagement to encourage alignment, drive real world change and increase allocations to climate solutions, in order to achieve appropriate returns on the Scheme's investments whilst managing risk. The Trustee will keep these actions under review and, as an evolving area, expects to take additional actions in future years. We will report on these actions annually in this Climate Report.

What does this all mean?

This report sets out how the Trustee is 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 the Trustee's commitment to aim for the Scheme's assets to have Net Zero carbon emissions by no later than 2050, as is exercising effective stewardship. The Trustee will continue to work closely with Schroders and the Trustee's advisors, to further develop its 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. The Trustee looks forward to sharing its progress with you.

Simple Guide to the terms used

Actuarial valuation	Typically carried out every three years, to help the Trustee and the Scheme's Sponsor (in this case, Tesco) work out how much money the Scheme needs to pay everyone's pension benefits, now and in the future.	Climate-related risks and opportunities	The TCFD (see below) requires 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.
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.	Covenant	The ability and willingness of the Scheme's Sponsor (Tesco) to make up any shortfall between a DB scheme's assets and the agreed funding target.
Alternative assets	Alternative assets used by the Scheme, including hedge fund and 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.	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.
Asset class	A way of grouping investments that exhibit broadly similar characteristics to each other. Examples of asset classes include equities or property.	Defined Benefit (DB)	A pension scheme in which the primary pension benefits payable to members is based on a defined formula, often linked to the member's salary. The Sponsor (Tesco) bears the risk that the value of the investments held under the scheme fall short of the amount needed to pay the pension benefits.
Bond	A way companies, governments, and other organisations 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.	Debt	Money borrowed by a company or government which normally must be repaid at some specified point in the future.
Carbon emissions	The release of carbon dioxide, or more generally greenhouse gases, into the atmosphere. For example, from burning fossil fuels.	Direct Property	Properties where the Trustee has full ownership and are not held through a fund. For the Scheme, these tend to be properties based in the UK.
Carbon footprint	In an investment context, the total carbon dioxide or greenhouse gas emissions generated per amount invested (eg in £m) by an investment.	Emerging Market Debt	Debt issued by governments or companies in emerging markets. Compared with its developed market equivalent, emerging market debt has been perceived as riskier and has typically therefore offered higher prospective returns.
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).	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 interest 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 index-linked bonds). 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 comparison of the value of assets with the value of liabilities (see below) for a DB pension scheme.
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.
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).
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 Debt	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.
Income Generating Assets	Long-term assets, which largely offer contractual cash-flows. IGAs cover a range of asset classes, including property, infrastructure and debt.
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.
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 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.
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.
Science-Based Targets Initiative (SBTi)	An organisation that sets standards and provides accreditation for science-based targets set by companies and investors.
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.
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.
Taskforce 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 1 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

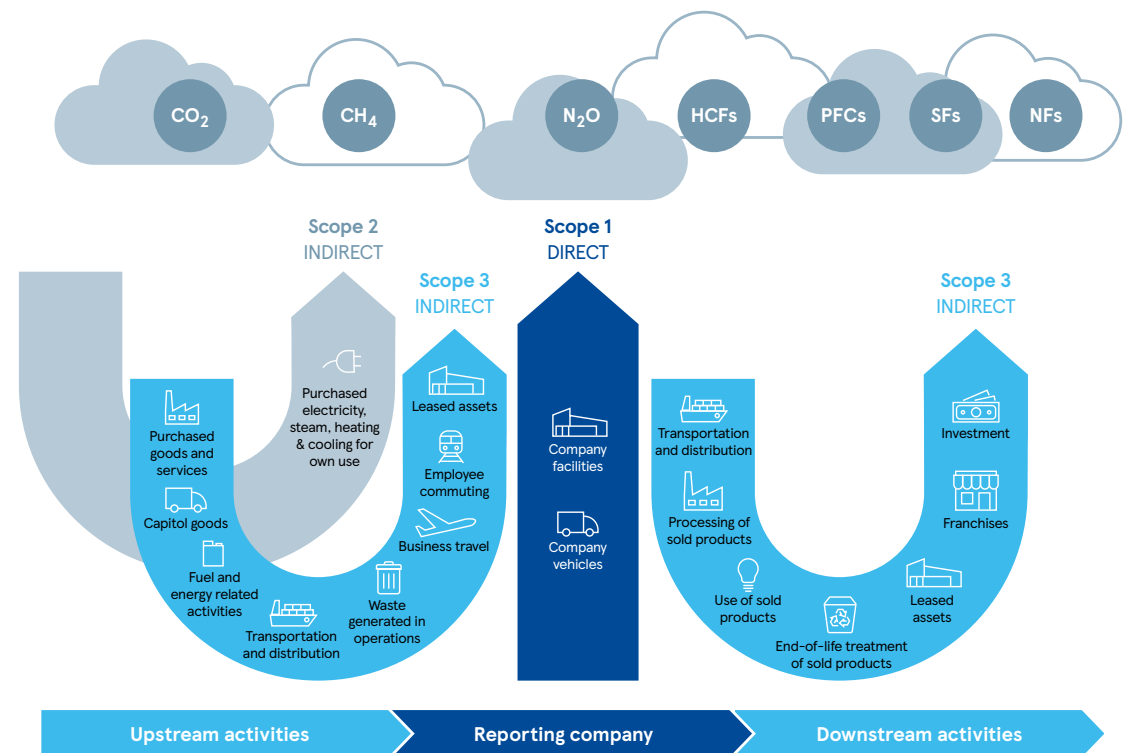
Appendix 1 – Greenhouse gas emissions explained

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 climate scenario analysis information

This Appendix sets out a summary of the quantitative analysis carried out by the Trustee in 2023.

More information on the scenario analysis, including further detail on the modelling approach and key features of the climate scenarios considered, is set out in last year's [Climate Report](#).

Modelling approach

- In September 2023, the Trustee used climate-scenario analysis to assess the potential impacts of climate change on the investment strategy and the funding position, as well as considering what impact climate scenarios could have on the sponsoring employer, Tesco.
- The scenario modelling and the advice that was presented to the Trustee considered the anticipated changes in the Scheme's asset allocation over time. It also considered the potential impact of market and broad economic factors, including factors that might result from steps taken by governments, and how they may influence the Scheme's assets and liabilities over time. The modelling provides market average outputs, but in practice the Scheme's investment portfolio may not experience climate impacts exactly in line with the market average. The Trustee therefore considered a range of outcomes as well.
- The climate-scenario analysis is based on a model developed by Cambridge Econometrics and Ortec Finance. Ortec Finance are expert providers of investment decision technology and solutions. Cambridge Econometrics specialise in modelling global economies and advise clients such as the European Commission. Note that the Trustee was able to obtain all the data required to identify the potential impact of the scenarios on all asset classes.
- The three climate scenarios were projected year by year, over the next 40 years.
- The results are intended to help the Trustee to consider how resilient the DB funding and investment strategy are to climate-related risks.
- Cambridge Econometrics and Ortec Finance have modelled the effects of three possible paths the world could follow. These are just three illustrative scenarios, and they are not intended to be "worst case". They are only three scenarios out of countless others which could have been considered. Other scenarios could give better or worse outcomes for the Scheme.
- The version of the model used for the Scheme's analysis was based on macroeconomic data on 31 December 2022, calibrated to market conditions on 31 March 2023, and using the Scheme's Safe Harbour funding basis.

Description of the scenarios and why the Trustee chose them

The three climate scenarios were also compared with a "climate-uninformed" scenario, which broadly reflects the projection underpinning the Safe Harbour funding plan. It assumes no increase of physical risks due to climate change and does not make any explicit assumptions about the transition to a low carbon economy, beyond what is already priced into market expectations.

The climate scenarios were chosen to be examples of plausible scenarios. The Trustee acknowledges that many alternative plausible scenarios exist, and that other scenarios could point to better or worse outcomes for the Scheme.

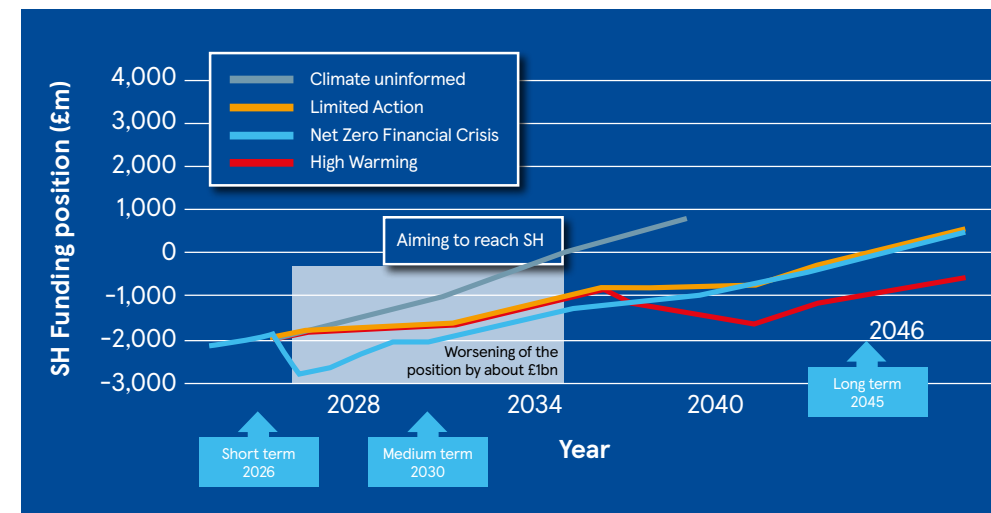
Transition	Description	Why the Trustee chose it
High Warming	Global Net Zero carbon emissions not reached by 2050; only existing climate policies are implemented, and temperatures rise significantly. Average global warming is around 2°C by 2050 and rises to around 4°C by 2100, compared to pre-industrial levels	To explore what could happen to the Scheme's finances if carbon emissions continue at current levels and this results in significant physical risks from changes in the global climate that disrupt economic activity.
Limited Action	Intended as a potential middle ground scenario between the other two scenarios. Some new policies are implemented but ultimately Net Zero is not achieved by 2050. Average global warming is around 1.8°C by 2050 and rises to 2.8°C by 2100, compared to pre-industrial levels.	To see how the Scheme's finances could play out if the economy makes a material shift towards low carbon by 2030 but global Net Zero carbon emissions are achieved by 2050.
Net Zero Financial Crisis	Global Net Zero carbon emissions is achieved by 2050; rapid and effective climate action (including using carbon capture and storage). Financial markets are initially slow to react and then react abruptly. Average global warming stabilises at around 1.5°C above pre-industrial levels.	To look at the risk and opportunities for the Scheme if global Net Zero carbon emissions is achieved by 2050, but financial markets are volatile as they adjust to a low carbon economy.

Output from the scenario analysis

The Trustee considered the different climate scenarios and the expected impact of each of these on the projected assets, liabilities, investment strategy, funding position, and strategy of the Scheme. The impacts were considered in three broad areas:

- Financial market impacts
- Societal impacts (ie life expectancy)
- Covenant impacts (ie the impact on Tesco)

As at 31 March 2023, the assets were around £13.4bn and the Scheme was 102% funded on its ongoing valuation basis. For the climate scenario analysis, the Trustee considered a more prudent assessment of the Scheme's liabilities, calculated on the "Safe Harbour" basis - ie, where the Scheme is in a position to be able to meet all its future liabilities with returns of just 0.5% a year above gilts. On the Safe Harbour basis, the liabilities were around £15.5bn as at 31 March 2023, representing a deficit of around £2.1bn.



Output from the scenario analysis

Scenario	Impacts
High Warming	Detrimental impacts of physical impacts of climate change reduce funding position over time relative to climate uninformed base-case. Materially worse over subsequent decades, unless mitigated through changes in investment and/or funding strategy.
Limited Action	Funding position worse over next decade, then impacted by transition costs and physical risks over subsequent decades.
Net Zero Financial Crisis	Sharp repricing of assets and sentiment shock in short to medium term due to reaction to Paris targets. Recovers somewhat but remains significantly worse than climate uninformed base case.

In all scenarios, at the point at which the Scheme was expected to reach Safe Harbour, the funding position could deteriorate by roughly £1bn, when considering only the likely investment and financial market effects in isolation.

Societal impacts

Climate-related factors may influence UK mortality rates in future, including direct factors such as changing temperatures and more extreme weather events and indirect factors, such as economic impacts and changing lifestyles.

Under the Limited Action and High Warming scenarios, the dominant effects are assumed to be rising global temperatures and economic losses which lead to an increase in death rates.

Under the Net Zero Financial Crisis scenario, global temperature rise is kept around 1.5°C, limiting the direct and economic impacts of climate change. Under this scenario, political and social change are assumed to be more dominant factors leading to a healthier living environment and lifestyles which reduces death rates.

The potential impact on life expectancy of the three scenarios could vary. Under the Limited Action and High Warming scenarios the detrimental impact on life expectancy could reduce funding costs by about £1bn by 2034. Conversely, the potential for longer life expectancies under the Net Zero Financial Crisis could result in additional funding costs of around £1bn by 2034.

Potential impacts on Tesco

The Trustee also considered potential business consequences of climate-related risks and opportunities on the employer covenant supporting the Scheme (from Tesco) – over the short, medium, and long term, as described elsewhere in this report. This was supported by advice and analysis from their covenant advisor, Interpath. Interpath's analysis was based on certain initial climate financial modelling prepared by Tesco.

The analysis considered how climate-related risks and opportunities could impact the inputs and costs associated with Tesco's own operations, as well as how it could impact on Tesco's supply chain. The Trustee also considered the impact of climate change on Tesco's brand reputation.

Potential risks that were noted were:

- The potential for product shortages
- Operational issues
- Climate litigation
- Loss of customer demand
- The impact of changing fiscal policy
- The potential for lost revenue and increased costs

The Trustee also considered Tesco within a wider sector context.

The Trustee considered the quantified risks reported by Tesco, to understand the potential impact on profits, and therefore Tesco's ability to support the Scheme in the future. The Trustee noted that clear steps are being taken by the Tesco Group, including disclosure against the TCFD recommendations, Tesco's commitment to reaching Net Zero emissions across Group operations by 2035 (and across its full value chain by 2050), and various initiatives to manage risks to the business associated with climate change.



Conclusions from the scenario analysis

Climate-related risk is a material financial risk to pension schemes in general, and to the Tesco PLC Pension Scheme. The impacts are likely to come from a range of sources – financial markets, societal, policy, and physical.

The Trustee considered the scale of potential climate-related risks and opportunities due to financial markets for the Scheme under the above scenarios, and compared this to wider market risks, based on a Value at Risk (VaR) measure. The combined analysis illustrated that the potential impact of climate-related risk could be in the region of £1bn, based on the median outcomes of the modelling, with the range of possible outcomes meaning much higher impacts could be seen. Although not directly comparable, the Scheme's estimated 1 year 1-in-20 VaR is about £1.5bn.

The Trustee therefore concluded that climate investment risk could be meaningful, and comparable to other extreme market events that the Scheme could face.

The Trustee recognises that there are many reasons why the outcome might differ from those modelled. For example, there is a wide range of possible outcomes around the median outcome under each scenario, due to the usual investment market uncertainties and additional uncertainties arising from climate-related variables. It was also noted that the timing of the potential impacts of climate-related risk and societal changes are uncertain and could materialise over different time periods. In some scenarios, these could be at least as significant as the other risks that the Scheme faces.

Resilience of the Scheme's investment and funding strategy in these scenarios

The Trustee has an integrated monitoring framework that sets out potential actions – investment, funding, and covenant actions – should the actual or projected funding or covenant position worsen. This framework and the projection modelling have been agreed with Tesco and will be reviewed as part of the Scheme's actuarial valuation cycle. The Trustee considered the resilience of the Scheme's investment and funding strategies in light of the climate-related risks and opportunities modelled under the scenarios.

The Trustee considered that the investment and funding strategies remain resilient, having noted the potential actions available to them, as set out in their integrated monitoring framework. The Trustee also considered the framework itself, in light of the climate scenarios, and considered it to remain resilient. This is due to the clearly defined potential steps to take within the investment and funding strategy, should the funding or covenant position worsen.

Appendix 3 – additional Targets and Metrics information

Summary of 2024 Emissions and Data Quality Metrics

Public markets		Absolute emissions: Total greenhouse gas emissions (tCO ₂ e)	Emissions intensity: Carbon footprint (tCO ₂ e/£m invested)	Emissions intensity: WACI (tCO ₂ e/\$m revenue)	Data Coverage	Data Coverage		
						Reported	Estimated	No data
Listed Equities	Scopes 1 & 2	37,200	25	61	99%	97%	2%	1%
	Scope 3	535,000	359	637	100%	86%	14%	0%
Corporate Fixed Income	Scopes 1 & 2	72,300	71	104	87%	79%	8%	13%
	Scope 3	536,000	530	798	86%	57%	29%	14%

Private markets		Absolute emissions: Total greenhouse gas emissions (tCO ₂ e)	Emissions intensity: Carbon footprint (tCO ₂ e/£m invested)	Emissions intensity: Floor area (kgCO ₂ /m ²)	Data Coverage	Data Coverage		
						Reported	Estimated	No data
Project Gold	Scopes 1, 2 & 3	20,900	113	73	100%	100%	0%	0%
Direct Property	Scopes 1, 2 & 3	2,250	11	18	100%	32%	68%	0%
Indirect Property	Scopes 1, 2 & 3	83,800	124	63	74%	35%	39%	26%
Infrastructure	Scopes 1 & 2	46,900	81	n/a	86%	50%	36%	14%
	Scope 3	47,500	82	n/a	31%	16%	15%	69%
Private credit ¹	Scopes 1 & 2	42,900	44	n/a	44%	16%	28%	56%
	Scope 3	171,000	174	n/a	43%	15%	28%	57%

Sovereign Fixed Income		Absolute emissions: Total greenhouse gas emissions (tCO ₂ e)	Emissions intensity: Carbon footprint (tCO ₂ e/£m invested)	Emissions intensity: WACI (tCO ₂ e/\$m revenue)	Data Coverage	Data Coverage		
						Reported	Estimated	No data
LDI	Scopes 1 & 2	405,000	5.5	93	100%	0%	100%	0%
Non – LDI	Scopes 1 & 2	74,000	7.4	431	100%	0%	100%	0%

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 c25,000 tCO₂e, have therefore all been included as scope 3 emissions.

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Further details on climate-related metrics

Metric	What's included and why
Absolute emissions: Total greenhouse gas emissions (tCO ₂ e)	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 CO ₂ equivalent. This metric is anticipated to reduce over the long term as the Scheme and the global economy decarbonise.
Emissions intensity: Carbon footprint (tCO ₂ e/£m)	The total greenhouse gas emissions described 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 CO ₂ equivalent per £1m invested. This metric is anticipated to reduce over the long term as the Scheme and the global economy decarbonises.
Emissions intensity: Weighted Average Carbon intensity (WACI) (tCO ₂ e/\$m)* / emissions intensity per floor area kgCO ₂ /m ² / emissions intensity per capita tCO ₂ e/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 CO ₂ equivalent per \$1m of revenue. For property: The greenhouse gas emissions of each holding divided by the holding's floor space in metres squared and aggregated across the portfolio based on the portfolio weights of the property holdings. Reported in kg of CO ₂ equivalent per metres squared. For sovereign fixed income 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 CO ₂ equivalent per £1m of GDP at Purchasing Power Parity (ie per Int\$1m) or in tonnes of CO ₂ equivalent per capita. This metric is anticipated to reduce over the long term as the Scheme and the global economy decarbonises. <i>*Year on year comparison is stated per \$m of revenue</i>
Portfolio alignment: Alignment with Net Zero by 2050 goals	For equity and corporate 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 Appendix 3 – Schrodgers Net Zero Alignment Framework. 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 behalf of the Trustee.

The Trustee believes it has used the best and most recent data available at a proportionate cost. The extent to which estimated data has been reported or estimated is shown in the Emissions and Data quality metrics tables.

The Trustee is 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. The Trustee acknowledges, 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. The Trustee notes 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.

The Trustee has gathered climate data, using best endeavours and as far as it is able in order to give the best picture of its latest position that it can. Data availability and consistency in approach between external managers is still evolving and the Trustee has 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 6% of the Scheme's asset base as at 31 December 2024. 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.
- The Trustee considered if it was able to collect data for its private equity mandates (representing 8% of assets) for the first time, however coverage and quality of data was very poor. The Trustee 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 and the Trustee 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. The Trustee is 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.

The Trustee has reported on the latest available data, as it's required to do. Public markets data is based on asset allocation valuations as at 31 December 2024 and using the latest emissions data available from the underlying companies/sovereign fixed income. Data available from MSCI is at the latest date available within their data set. Data was collated and assessed during 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 2024 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.

The Trustee has 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 • Equities • Corporate fixed income • Infrastructure • Property (funds now included)	47%
Included for metrics, not alignment target: • Sovereign fixed income • LDI • Private credit	39%
Not included • Private equity • Alternatives and other residual assets • Treasury	14%

Asset allocation for above table based on 31 December 2024 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 fixed income 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 the Trustee's 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 has changed from GBP to USD, 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 reflective 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 has also adopted 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 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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