Tesco PLC Pension Scheme.

Stewardship update 2025.

Tesco Plc Pension Scheme.

Introduction

Stewardship is an important priority for the Scheme, and we continue to carry out Stewardship activity in line with the UK Stewardship Code's key principles. We've prepared this update to highlight the work we've been doing since our last Stewardship Update.

As well as updating you on the Stewardship activity that we've carried out in the Scheme year to 31 March 2024, we've also included an update on our more recent activities and our priorities for 2025.

This update covers:

- What is Stewardship?
- Our Stewardship priorities
- Our approach to Stewardship, including some case studies
- What we've done since our last Stewardship Update
- Next steps and areas of focus
- Where to go for more information

During the period covered by this update, Tesco Pensions Investment (TPI) were the Scheme's principal investment manager (and therefore responsible for the Stewardship activity). In June 2024, Schroder Investment Management ("Schroders") replaced TPI and took on responsibility for the Scheme's assets during June and July 2024.

As part of the handover, TPI, Schroders, and the Trustee's advisors worked closely together, to make sure there was continuity with any ongoing Stewardship and engagement activity. Much of the activity set out in this update was carried out by TPI, but when we discuss current activities and our future priorities, we focus on Schroders' ongoing activities.

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

What is Stewardship?

Stewardship is all about the Scheme using its influence with the companies and other assets in which it invests to be a force for good, as part of delivering members' benefits and supporting members' financial outcomes. It's an important activity, which can add real value for the Scheme.

We believe that the Scheme's investment outcomes can be improved through engagement with the companies and other assets we invest in, as well as through collaboration with industry bodies and other third parties. We have used some case studies in this update to explain how we have done this in practice.

Our Stewardship priorities.

We've agreed to focus our Stewardship activities on the following areas, collectively known as ESG:

- **Environmental** issues including climate change, and nature and biodiversity loss
- **Social** issues including human rights, diversity, equity and inclusion (DE&I), and fair and decent treatment for workers*
- **Governance** issues including business ethics and corporate transparency

Stewardship in these areas is built into our investment processes. We monitor our investment managers' activity in these areas, to make sure they meet our expectations.

When considering Stewardship activities, our objective is to achieve the best long-term return on the Scheme's investments, while managing any investment risks and taking account of any financially relevant factors. We work closely with Schroders (as our principal investment manager) to continually improve our Stewardship activities.

** This priority was extended to include "fair and decent treatment for workers" in December 2024.*

Our approach to Stewardship.

We take our Stewardship responsibilities very seriously. Our approach to Stewardship includes the following activities:

- **Active ownership**, such as engaging with the companies and other assets in which we invest, and exercising voting rights and responsibilities where we can
- **Decision-making** that's consistent with our [Responsible Investment (RI) Policy]
- **Collaboration** with others. Working collectively to support policies that help to create long-term value. See page 7 for more details

You can read more about our activities on page 8 of this update. We also cover the areas we'll be focusing on next, on page 9.

Stewardship is built in to the investment-monitoring and decision-making that Schroders carries out (and that TPI carried out previously) on the Trustee's behalf. When selecting Schroders as our new principal investment manager, their approach to Responsible Investment (RI) was one of the key criteria we used in our selection.

Schroders have a well-resourced investment team, which includes specialist sustainability experts, including Stewardship and engagement specialists. Sustainability is considered as a key part of the fundamental investment analysis that Schroders' investment teams carry out, before making an investment and in their ongoing monitoring and engagement activity. Engagement activity is led by the investment specialists, who really understand the company business model and what actions would be appropriate for a company to take to add value. This engagement activity is supported by the sustainability experts, with specific subject matter knowledge on climate, nature and biodiversity, and social issues.

All of this work supports our goal of paying pensions when they are due.

Active ownership

We think it's important to carry out Stewardship activities across all the types of investment that we hold. The nature and extent of those Stewardship activities will vary, depending on the nature of the investment.

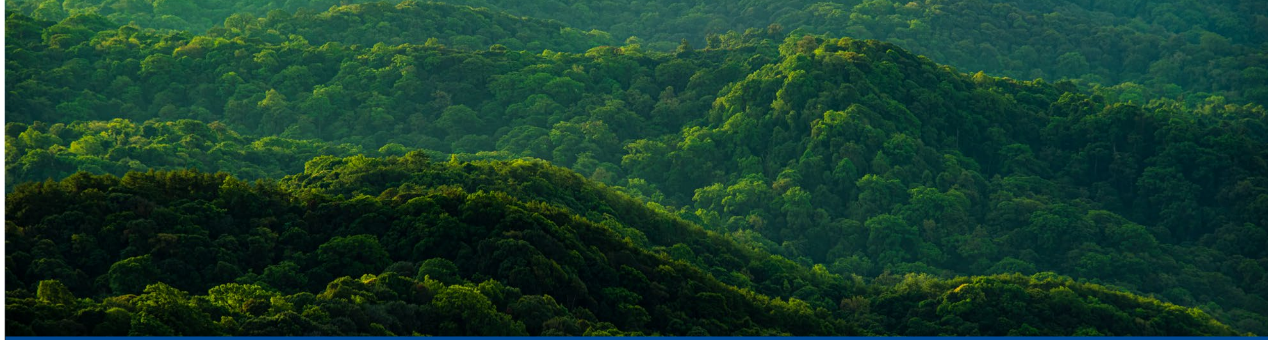
The equities (stocks and shares) that we hold come with voting rights. In other words, as a shareholder of companies we have the opportunity to vote on various matters affecting those companies. We understand the importance of exercising these voting rights, which we use to influence areas that we believe could pose a material financial risk or opportunity for the Scheme.

Since June 2024, our equities have been managed by Schroders, who have the freedom (on behalf of the Trustee) to manage the equities themselves, or to allocate to external managers should they wish, in a manner that's consistent with the Trustee's legal duties. Since their appointment, Schroders have managed our equity investment directly. All voting and engagement activity for our holdings with companies has, therefore, been done by Schroders. This is a different approach to how the assets were managed by TPI in the Scheme year to 2024, as TPI outsourced management to external managers and equity funds.

For corporate debt, which is also now managed directly by Schroders on the Trustee's behalf, we still engage actively even though we don't have voting rights. Our engagement covers all of our Stewardship priorities, with particular focus on good governance and improvement in climate reporting and decarbonisation.

In private markets, engagement with fund managers is mainly focused on scrutinising and monitoring their ESG principles and policies, and encouraging them to make sure that they're consistent with the Trustee's ESG principles and policies. This gives us comfort that they're doing what they can to align the investments with the Trustee's principles, although with some private assets, particularly legacy assets, this is harder to achieve. In the Scheme year to 2024, TPI actively managed the properties the Scheme owns, with Schroders taking on this role as part of the handover.

Across all the managers that we invest with, we look at their firmwide policies and activities on systemic Stewardship, to make sure this is aligned with our RI Policy and our Stewardship priorities.



ACTIVE OWNERSHIP CASE STUDY: Net Zero Approach for a portfolio of retail property assets

This case study is an example of engagement carried out by TPI

What was the issue?

There were two issues. Firstly, making sure that the Energy Performance Certificate (EPC) rating of assets in the portfolio remained compliant with regulatory standards (which are due to rise over the next seven years). Secondly, working with the asset manager and the tenant to review the plan for aligning the portfolio with Net Zero targets.

What action did TPI take, on the Trustee's behalf?

TPI engaged with the asset manager and the sole tenant, to understand the EPC status of and the EPC improvement plan for each asset, to collect emissions data from each asset, and to discuss plans for achieving Net Zero emissions over time.

What was the outcome?

Through reviewing asset-by-asset emissions data, as opposed to portfolio level data, TPI was able to identify the properties which are progressing well, and those that will require priority action, eg refrigerant gas replacement. TPI was able to discuss these with the asset manager and the tenant, and was presented with plans for improvements.

TPI was comfortable that appropriate plans were in place for both EPC status and Net Zero ambitions. This activity allowed the Trustee to be confident when classifying the portfolio as "Committed to Align" against the Institutional Investors Group on Climate Change's (IIGCC) Net Zero Investment Framework. TPI was also able to consider how actions planned for Net Zero alignment will affect the EPC status – for example, removing gas boilers versus solar PV (photovoltaic) installation versus new roof insulation, and to be confident that both EPC improvements and Net Zero targets are being planned for.

What are the next steps?

To monitor the implementation of actions to improve the EPC ratings and energy intensity of the stores, and make sure that the Net Zero plan is implemented and supported.

As part of their appointment, Schroders will regularly report to us on the engagement activities they've carried out on our behalf, and on the progress being made. We plan on reviewing Schroders' internal policies and practices, including their approach to the oversight of any external managers, every year - to make sure that they reflect the Trustee's own approach.

Decision-making

We consider Stewardship to be an important part of our investment decision-making. For example, as part of Schroders' appointment, we reviewed and considered Schroders' approach to RI against best practice, as we considered this to be a core competency.

Engagement is built into our investment processes. As well as the Trustee's consideration of Schroder's policies and processes, Schroders in turn regularly assesses and reviews the external investment managers' engagement policies and processes, on the Trustee's behalf. We monitor our managers' engagement and voting activity regularly. We expect Schroders to include engagement activity in its reporting to the Trustee. Schroders aims to influence change on the Trustee's behalf with tools such as engaging directly with external managers and investee entities, collaborating with other investors as part of industry groups, and considering public statements in relation to investee entities.

Regular monitoring of the engagement and Stewardship activities carried out by the Scheme's external investment managers, as well as wider developments within the industry, supports our decision-making in this area. As stated in our RI policy, escalation may lead to disinvestment if an external manager fails to engage with the Trustee's long-term goals.

Within the Scheme year to 2024, TPI engaged with investee companies on behalf of the Trustee, in line with the Trustee's policies.

DECISION-MAKING CASE STUDY:

Engagement with the highest emitters in the corporate fixed income portfolio

What was the issue?

TPI was concerned about the Net Zero targets, decarbonisation plans, and climate ambitions of the Scheme's top ten highest-emitting companies within the corporate fixed income portfolio over 2023.

What action did TPI take on behalf of the Trustee?

TPI tested the credibility of the Net Zero plans of the different companies, by assessing them against the Transition Pathway Initiative, Climate Action 100+, various ESG data feeds, and its own proprietary research. TPI had meaningful engagement with all of the companies, including one-to-one meetings with eight of them.

Where companies were considered to have weaker and less credible plans, TPI raised concerns to allow the company to explain inconsistencies in its approach. Where companies were considered to have stronger climate action plans, TPI reviewed these in detail and gathered evidence to showcase best practices.

What was the outcome?

TPI were pleased to see that most of the companies had reasonable Net Zero targets and decarbonisation plans in place, with some excelling. Unfortunately, several companies had weaker plans and showed little willingness to improve them in the short-to-medium term, despite industry pressure and collective engagement. As a result, and combined with broader financial considerations, TPI (on the Trustee's behalf) decided to exit two positions, due to the lack of credible decarbonisation plans and emissions intensity projections unaligned with TPI's expectations or the Trustee's long-term Net Zero target. As part of this investment decision, TPI identified other investments in the same sector that had better financial outlooks and stronger transition planning.

What are the next steps?

Schroders took on the responsibility for continuing to monitor companies, particularly where more progress needs to be seen. There have been some changes to the fixed income portfolio under Schroders' management, which have resulted in some significant changes to the companies invested in. For companies Schroders has chosen to invest in as well as any fixed income holdings that remain in the portfolio, Schroders will check in on progress against stated short-term Net Zero goals and promote those companies that are performing well, by using them as case studies for others. Schroders will continue to engage with those that are not performing as well on climate transition, but which can feasibly improve their position and approach.

Collaboration

The Trustee and Schroders take part in a range of investor initiatives, designed to maximise industry collaboration on RI. This is an evolving process, which has resulted in some positive outcomes for the Scheme. We believe that positive collaboration with other industry stakeholders will help to further strengthen and develop our Stewardship and investment governance processes.

Some examples of how we collaborate with other stakeholders are set out in the table below.

Name of Initiative	Description	Role
The Asset Owner Council (AOC)	A group of asset owners who collaborate to develop industry best practice and share learnings.	Member
The Institutional Investors Group on Climate Change (IIGCC)	Taking part in listening groups, to better understand the industry's approach to climate-related issues. Among other things, this covers the way in which investors address and report on their climate commitments across all major types of investment.	Member
The UK Centre for Greening Finance and Investment (CGFI)	Consultation with climate experts and other asset owners, as a founding member of this government-sponsored initiative to promote a greener financial system.	TPI was a supporter. Schroders are also a supporter and represent the Trustee
2024 Global Investor Statement to Governments on the Climate Crisis	The most comprehensive investor call for climate action, focussing on a whole-of-government approach with policy implementation at all levels of government.	Signatory
Make My Money Matter's Green Pension Charter	The charter encourages organisations and brands across the UK to align their pension schemes with their values by going green.	Signatory

We have continued to support initiatives including Climate Action 100+ and the Carbon Disclosure Project (CDP), which both encourage enhanced disclosure and action on climate from companies, and Nature Action 100 (NA100), an investor-led initiative targeting 100 companies in 8 key sectors that are deemed to be systemically important in reversing nature loss and biodiversity loss by 2030.

We also continue to collaborate with other institutional investors, and to sign up to initiatives supporting our work, as appropriate and in keeping with our legal duties.

COLLABORATION CASE STUDY:

Nature Action 100 (NA100)

What was the issue?

As part of the launch of NA100, the initiative identified target companies and sectors for investors to initially engage with.

The aim of the engagement is to drive greater corporate ambition and action to reverse nature and biodiversity loss, through the power of collaborative engagement. At the time, the Scheme had exposure to eight of the one hundred companies targeted by NA100.

What collaborative action did TPI take on the Trustee's behalf?

With support from TPI and its advisors, the Trustee decided, to become a signatory of NA100. It also signed the initial, targeted engagement letters that were sent to the eight issuers it had exposure to. The letters provided investor expectations for the companies, principally investors requesting reassurance from the companies that action will be taken to align their business model with the targets and goals of the Global Biodiversity Framework.

What was the outcome?

The letters were distributed to the companies with many investor signatories, to increase pressure on the companies to improve their biodiversity approaches.

What are the next steps?

Schroders will continue to monitor the positions that are still held and covered by NA100. Schroders will also participate in the collaborative engagements where appropriate.

How have we continued to strengthen our Stewardship approach?

The Trustee works together with Schroders to make sure that Stewardship considerations are built into all our policies and procedures, and that we are working on shared priorities that are material to the portfolio. We aim to reflect best practice in responsible investing. Since our last update, we have:

- Reviewed our RI Policy, updating this for new developments
- Reviewed our Stewardship priorities, adding clarity on what issues are important to us when considering Stewardship and engagement
- Considered Schroders' approach to Stewardship and wider RI capabilities as part of their appointment, to make sure they align with our own
- Shared our RI policy with Schroders, as we expect them to take this into account when managing the Scheme's assets on our behalf
- Reviewed the groups and bodies that we participate in, as part of the transition to Schroders, to make sure they remain appropriate and help to support effective Stewardship
- Joined NA100, a new initiative for us, as nature and biodiversity is a Stewardship priority for the Scheme
- Continued to update our knowledge, with training on RI matters including nature and biodiversity, climate solutions, DWP taskforce on social factors and TCFD and climate metrics and targets
- Looked at our private markets managers' practices and processes. This was carried out by TPI. Schroders are now using this work to help focus their engagement priorities with the private market managers
- Worked with our investment advisors to consider systemic risk more broadly, and the actions our managers are taking in this area. For example, we have met with Insight, our liability hedging manager, to understand the actions they are taking at a firm-wide level, as a major holder of government bonds and instruments.

What areas are we focusing on next?

We'll engage with Schroders, our other external managers, and our advisors, to make sure we're influencing change (in a way that's in keeping with our legal duties). This year we'll be focusing on the following, which we see as important as part of achieving the best long-term return on the Scheme's investments, while managing any investment risks:

- Reviewing and monitoring our progress against our climate targets and Stewardship priorities and using this to focus our engagement activities on where we can have most impact
- Working with Schroders to understand the activities they are carrying out on our behalf, to engage with external managers and across asset classes, through enhanced reporting
- Working with Schroders to understand the impact of their engagement activities and the progress being made towards their desired outcomes across the various asset classes that we invest in
- Looking to invest in further climate solutions, subject to a review of the investment opportunities and consideration of our fiduciary duty to our members and other beneficiaries
- Working with our investment managers to understand their approach to systemic Stewardship and the progress they are making in this area.
- Adapting our engagement approach in response to any findings coming from investment manager questionnaires
- Embedding our engagement and Stewardship approach into the new investment mandates that Schroders are managing
- Continuing to take part in collaborative engagement initiatives

To find out more

- In our annual **Implementation Statement**, we report on our Stewardship activity and provide a detailed update on the voting and engagement activity that was carried out for the Scheme
- You can read about the specific actions we've taken on climate change in our latest **Climate Change Report**
- For more information, you can view our previous reports on Stewardship **here**.