



Tesco PLC Pension Scheme.

Stewardship update 2026.



Introduction.

Stewardship is all about how the Scheme uses its influence with the companies, and other assets it invests in, such as properties, 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, regulators and other industry groups that we interact with.

As the Trustee of the Scheme, we've prepared this update to highlight the work we've been doing since our last stewardship update.

This update covers:

- Our approach to stewardship, including some case studies
- Highlights from the past year, including some key insights from our other reporting to 31 March 2025
- Areas we're focusing on next

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 engagement?

An engagement is when an investor works with the party they invest with.

Engagements are typically between the Trustee and its investment managers, or between an investment manager and a company or asset they invest in.

The objective of engagement is to drive improvements.

This could be improving understanding of the investment eg through better disclosure; or improving the value of an investment, by working together to improve a characteristic or outcome.



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 we invest in, 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 6](#) for more details

You can read more about our activities on [page 7](#) of this update. We also cover the areas we'll be focusing on next, on [page 9](#).

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



How does the Scheme invest and carry out stewardship activity?

- The Trustee invests the Scheme's assets via its principal investment manager, Schroders.
- Schroders invests either:
 - directly in assets, such as companies or property, or
 - indirectly via other external investment managers, which are in turn responsible for investing in assets, such as companies or property.
- Schroders carries out stewardship activities with the Scheme's assets, such as companies, where they're held directly, and with relevant external investment managers where assets are invested indirectly.
- Schroders regularly reports on the stewardship activities undertaken on behalf of the Trustee.
- The Trustee monitors the activity undertaken to ensure it aligns with its objectives in this area.
- Sometimes the Trustee will carry out stewardship activities itself too. We have included examples of this in the case studies on [page 6](#).

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 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 company business models 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.

We, the Trustee, set objectives for Schroders as well as the Scheme's investment adviser, LCP, including RI and stewardship objectives. We carry out assessments against these objectives every year to make sure that sufficient steps are being taken to meet our expectations.

All of this work supports our goal of paying pensions when they're 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 type of asset and the extent to which assets are managed directly by Schroders or via external investment managers.

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 their appointment, Schroders have managed our equity investments directly. All voting and engagement activity relating to these investments has, therefore, been completed by Schroders.

For corporate debt (lending money to companies), which is also now managed directly by Schroders on our behalf, we engage actively even though we don't have voting rights.

We also have a large holding of UK government bonds (loaning money to the UK government). These investments are managed by another external investment manager who we also expect to engage on our behalf. A case study on this is given across the page.

Our engagement covers all of our stewardship priorities, with particular focus on good governance and improvement in climate reporting and decarbonisation.

In private markets, which are investments not traded on a public exchange, the assets are mainly invested via external investment managers. Engagement with these managers on RI is mainly focused on scrutinising and monitoring their RI principles and policies and encouraging them to make sure that they're consistent with the Trustee's RI 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, this is harder to achieve.

Within private markets, we own some properties directly. In the Scheme year to 31 March 2025, Schroders took over Tesco Pension Investment Limited (TPI)'s role of actively managing these properties.

Across all the managers that we invest with (Schroders and the other external investment managers), we look at their firmwide policies and activities on stewardship, to make sure this is aligned with our RI Policy and stewardship priorities.

ACTIVE OWNERSHIP CASE STUDY:

The below case study outlines the Trustee's engagement with the Scheme's government bond 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, 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 Scheme's Responsible Investment Committee (RIC) considered LCP's assessment of the UK policy advocacy activities undertaken by the Scheme's government bond manager on climate change and compared the assessment to other government bond 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 government bond manager takes clear actions to develop their approach further across several areas identified in the review. The government bond 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 government bond 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 government bond manager on this topic, keeping practices under review and seeking best practice action in this important area.

What are systemic risks?

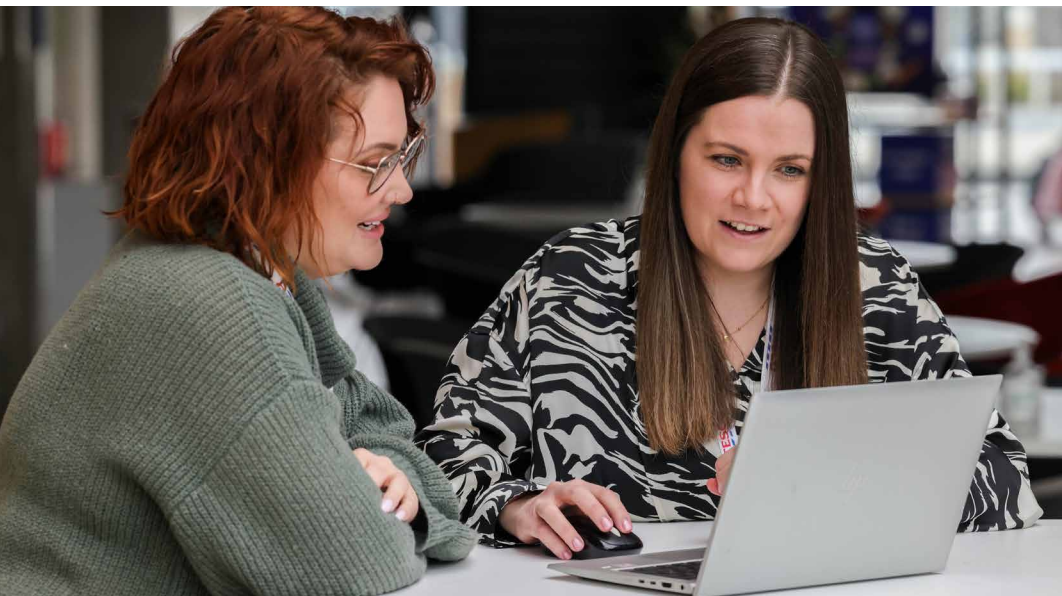
Systemic risks are risks that don't just affect the financial performance of one company, or type of asset, but can impact the performance of an entire financial system and even undermine the stability of financial markets.

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 and influences our investment decisions. As well as the Trustee's consideration of Schroders' policies and processes, Schroders 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. One way we do this is through reviewing engagement activity reporting from Schroders. Schroders aims to influence change on the Trustee's behalf with tools such as engaging directly with the companies it invests in and external investment managers, collaborating with other investors to support Trustee policies as part of industry groups, and considering public statements in relation to companies or assets it invests in.

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 investment manager fails to engage with the Trustee's long-term goals.



DECISION-MAKING CASE STUDY:

The below case studies outline how Schroders has engaged on behalf of the Trustee with different companies on the Scheme's stewardship priorities

This case study was undertaken by Schroders with Microsoft

What was the issue?

A shareholder proposal asked the company to report on pay gaps across race and gender. The proposal covered associated policy, reputational, competitive and operational risks, and risks related to recruiting and retaining diverse talent.

What action did Schroders take?

Schroders engaged with Microsoft in November 2024 on AI misinformation governance and communicated their voting intention ahead of the AGM. Despite their support, the shareholder proposal was rejected, with 81% voting against.

What are the next steps?

Schroders plans to continue engaging with Microsoft on human rights and responsible technology, focusing on AI governance, risk mitigation, and transparency around content integrity.

This case study was undertaken by Schroders with Procter and Gamble

What was the issue?

A shareholder proposal asked the company to report on both quantitative median and adjusted pay gaps across race and gender, including associated policy, reputational, competitive, and operational risks, and risks related to recruiting and retaining diverse talent.

What action did Schroders take?

Schroders supported the proposal. Schroders believes that disclosure of median gender and racial pay gaps is important for achieving equal pay and improving diversity and inclusion. The shareholder proposal was not successful.

What are the next steps?

Due to the proposal's failure, Schroders will continue to monitor for future resolutions on this topic, as Schroders finds it important to ensure no unintentional biases exist in the company's pay structure.

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 is expected to give 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
The Asset Owner Council (AOC)	We're a member of a group of asset owners who collaborate to develop industry best practice and share learnings
The Institutional Investors Group on Climate Change (IIGCC)	As a member, we take 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.
2024 Global Investor Statement to Governments on the Climate Crisis	The most comprehensive investor call for climate action, focusing on a whole-of-government approach with policy implementation at all levels of government.

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. Examples include:

- [The UK Centre for Greening Finance and Investment \(CGFI\)](#) which was a consultation with climate experts and other asset owners to promote a greener financial system, which TPI also supported.
- [The Interfaith Centre on Corporate Responsibility \(ICCR\)](#), which is a US-based coalition of faith-based and values-driven organisations that promotes corporate accountability on social and environmental issues.

We've 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. For example, we've endorsed the LCP Climate Policy Asks, whereby LCP, our investment adviser, uses its influence (and the influence of its clients that have endorsed them) with policymakers and regulators to help achieve better long-term outcomes for its clients and beneficiaries.

COLLABORATION CASE STUDY:

The below case study is an example of the collaborative activities that Schroders carry out on behalf of the Trustee and how this resulted in an improved outcome

What is the background?

Schroders joined a collaborative investor initiative, led by the Interfaith Centre on Corporate Responsibility (ICCR), to engage a US retailer on the limited disclosures of its paid sick leave policies. The lack of disclosures meant that it wasn't clear if, or when hourly employees of this company were entitled to sick pay.

What were the engagement highlights?

Schroders initially asked the company to clarify its policies and was directed to published materials. However, these didn't have the level of granularity requested. By joining the ICCR, collective engagements with the company were much more constructive and resulted in the company explaining more detail on their approach.

In previous years, shareholder resolutions had been filed asking the company to adopt and disclose policies, with no impact. However, working in collaboratively with the other ICCR participants, Schroders adapted and co-filed a resolution for the 2024 AGM that sought clear disclosures from the company.

What was the outcome?

In response to this filing, the company published more detail on their approach to providing paid sick leave, including answering more of Schroders questions in depth, including confirmation that hourly colleagues with an average of at least 30 hours per week have access to sick leave. The investor group withdrew the resolution as the company provided the detail that was requested.

What are the next steps?

The collaborative engagement with the ICCR led Schroders to have better dialogue with the company and a better understanding of their policies. However, requests to consider expanding these policies to all employees and disclosing this publicly were met with resistance. Schroders are continuing to support and encourage the company to expand its paid sick leave policies to ensure that all employees are eligible.

Our Stewardship priorities.

Stewardship activities typically focus on a range of matters known as ESG (Environmental, Social and Governance) factors. As a Scheme, we've agreed to focus our activities on specific themes within each ESG area in particular:

- **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

Our [Responsible Investment \(RI\) Policy](#) sets out more information on why these areas have been selected as stewardship priorities for the Scheme.

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.

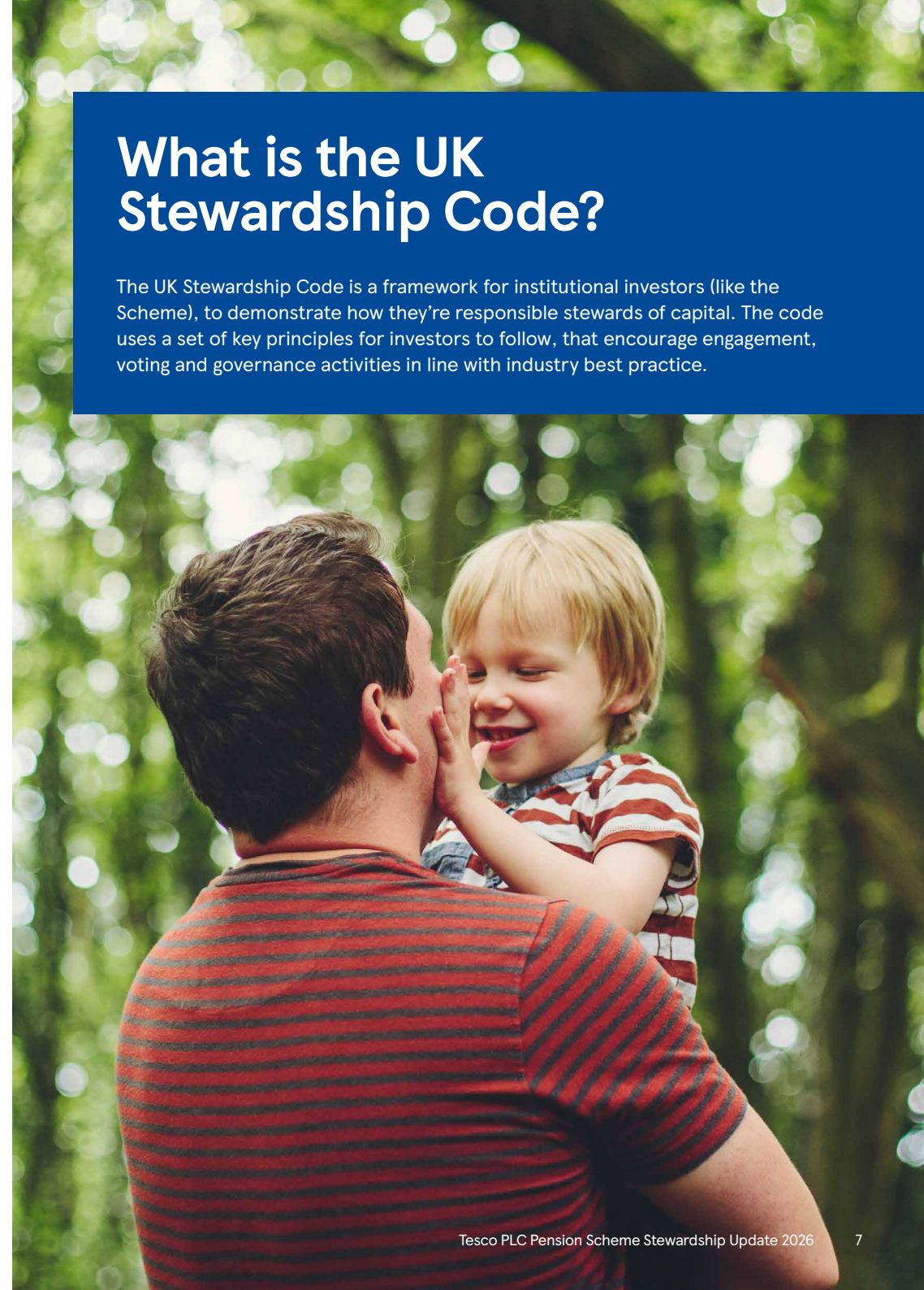
We regularly consider market-wide and systemic risks and opportunities relevant to the Scheme. For example, we use our climate-related risks and opportunities register to monitor climate risks and make sure actions are being taken to address them.

We also regularly undertake training and explore these areas with our advisers and Schroders to understand potential implications for the Scheme.

We work closely with Schroders to continually improve our stewardship activities as well as taking the UK Stewardship Code's key principles into account.

What is the UK Stewardship Code?

The UK Stewardship Code is a framework for institutional investors (like the Scheme), to demonstrate how they're responsible stewards of capital. The code uses a set of key principles for investors to follow, that encourage engagement, voting and governance activities in line with industry best practice.



Highlights from the past year.

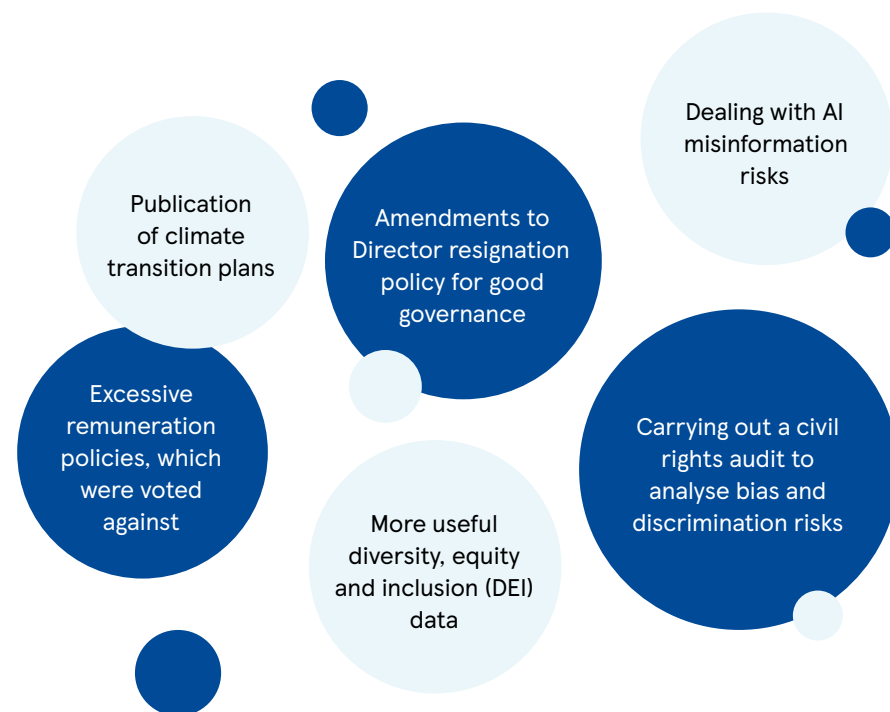
We've carried out a range of stewardship activities over the past year, aiming to use our influence to be a force for good, as part of delivering members' benefits and supporting members' financial outcomes. More information on stewardship and our approach can be found later in the update.

Here are some highlights from the past year:

- **We added fair and decent treatment of workers as a new priority:** When companies prioritise the well-being of their workers and nurture a positive workplace culture, they often have better outcomes. We reviewed our stewardship priorities and felt this area was important to add specifically.
- **We continued engagement activities across our investments:** We met with one of our investment managers that is a major holder of UK government bonds. We discussed the progress they have made in encouraging climate policy improvements with the UK government.

We also engaged with companies to appropriately support our stewardship priorities. This included engaging on social related issues which make up part of the Trustee's responsible investment priorities.

- **We participated in collaborative engagement efforts:** Including participating in investor groups to increase influence over large companies on key topics, such as employee rights.
- **We developed our approach to responsible investment and stewardship with Schroders:** In June 2024 we appointed Schroders to manage our investments. Throughout the year, Schroders showcased their expertise in responsible investing, engaging with companies on issues that matter most to the Trustee, while delivering strong financial outcomes for the Scheme.
- **Within the year, Schroders (as our principal investment manager, on behalf of the Trustee):**
 - Voted on over 1000 issues proposed by company management and shareholders
 - Voted against company management on 114 occasions
 - **Issues that were voted on include:**



How have we continued to strengthen our stewardship approach?

Working with Schroders has continued to strengthen our stewardship approach. They make sure that we're working on shared priorities that are important for the Scheme's investments. We aim to reflect best practice in responsible investing. Since our last update, we have:

- Reviewed our [RI Policy](#), updating for new developments.
- Reviewed the groups and bodies that we participate in to make sure they remain appropriate and help to support effective stewardship.
- Carried out a review of the Scheme's equity investments with Schroders, including RI integration.
- Reviewed regular updates from Schroders on stewardship and engagement activity.
- Reviewed progress against the Scheme's Net Zero engagement target.
- Met with a range of climate experts to discuss systemic climate risks and their potential impact on financial markets, the Scheme and Tesco.
- Continued to update our knowledge, with training on RI matters including climate metrics and targets, how climate risk is considered in economic modelling, Schroders' engagement strategy and governance issues (including business ethics, commitments, corporate transparency and voting).
- Carried out sessions to understand the Schroders' SustainEx and NatCapEx tools. The tools are used by Schroders to estimate the positive and negative impacts that companies and countries may create for society, the environment, and nature.
- Worked with our investment advisors to consider systemic risk more broadly, and the actions our investment managers are taking in this area. For example, we met with our government bond manager to understand the actions they are taking at a firm-wide level, as a major holder of government bonds and instruments, and to discuss the progress they have made relating to climate policy advocacy.

What areas are we focusing on next?

We'll engage with Schroders, our other external investment 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.
- Continuing to monitor Schroders on their engagement activities, the progress they're making, and the impact across all the assets we invest in.
- Working with our investment managers to understand their stewardship approaches and progress and refining our engagement strategy based on insights from their questionnaire responses.
- Continuing to take part in collaborative engagement initiatives where these align with our broader duties, stewardship priorities and wider objectives.
- Exploring further investments in climate solutions.
- Considering 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 integrated within our strategy.





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 report on Stewardship [here](#).

