



Task Force on Climate-Related Financial Disclosures (TCFD) Report for Nest's investments 2024/25

October 2025





The data and modelling presented in this report has been obtained from third parties including external providers and the investment managers of each portfolio. The draft report was shared with them for verification prior to publication. Nest Corporation assume no responsibility for the accuracy of the data.

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Foreword from the Chair



Nest Corporation as Trustee of the Nest Scheme believes that climate change is one of the world's biggest challenges, posing a significant threat not just to the environment but to social and economic stability. Both the physical impacts of a sustained rise in global temperatures such as more frequent extreme weather events, and the economic impacts of transitioning to a low-carbon economy will affect the investments we make on behalf of our members. Climate change risks could impact our members through lower returns on their retirement savings and a lower quality of life in retirement. If we do not take these risks into account in our investment strategy, they could threaten our goal to build financial peace of mind for all.

It is important that Scheme members and other stakeholders have transparency around how we are considering climate-related risks and opportunities within the investments we make on behalf of our members. Here we share our progress in the 2024/25 financial year, which ran from 1 April 2024 to 31 March 2025. This report supplements the summary in our [Scheme annual report and accounts](#) for 2024/25 and details how climate change is considered by the Board and implemented in investment decision-making, and the metrics and targets we use to track progress.

Our commitments

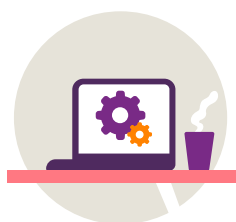
In 2020 we set an ambition to align our investment portfolio with limiting global warming to 1.5C by reaching net zero emissions across our portfolio by 2050 at the latest. This is aligned with the commitment made by governments across the world through the Paris Agreement and is consistent with the UK's legislated target of net zero emissions by 2050.

During 2024, we carried out an in-depth review of our climate change policy. This included engagement with our fund managers and peers and a workshop with our Investment Committee. While we kept the policy ambition of reaching net zero by 2050 and the key levers that we can use to achieve it, we identified several areas where the policy could be strengthened.

The main updates to the policy included a greater focus on physical risks, drawing out the impacts and dependencies on nature and social issues highlighting the role of climate solutions.

While financial institutions like Nest have been able to achieve portfolio emissions reductions, this has not necessarily translated into real world outcomes. Our ability to limit warming to below 1.5C decreases with each year. In the last year, we have also seen further backtracking on net zero commitments from governments and corporates. In our policy we have therefore sought to make clear the role of investors like Nest in the transition, and the importance of asset owners focusing on achieving real-world outcomes through stewardship and policy engagement.

We manage climate-related risks and opportunities through four distinct areas of the investment process:



Asset allocation



**Manager selection
and monitoring**



Stewardship



Public policy

We believe that these levers are all crucial elements of our toolkit. Some levers may be better suited to address particular issues, and which levers we use may also change over time. For example, data on physical risk is still developing, and we believe it is not yet fit for purpose for asset allocation across our portfolio. In the short-term to medium-term, we will therefore primarily address physical risks through stewardship and policy engagement.

Our progress

While we've been working on updating the policy, we've also been progressing on the key policy areas above. This includes the following milestones:

- › Since March 2024, the Scope 1+2 carbon footprint of our listed equity and fixed income funds in scope of our decarbonisation objective has fallen by 30%. This means that we have achieved a 70% reduction in the Scope 1+2 carbon footprint for these funds since 2019. This is ahead of our target to achieve a 30% reduction in Scope 1 and Scope 2 carbon footprint in our listed equity and corporate bond mandates by 2025 from a 2019 baseline. Around 53% of our portfolio has a decarbonisation target.
- › Over the past year, the Scope 1+2 carbon footprint of our equity allocation, which makes up around half of our default fund, has reduced by 5.1%. These reductions have been mostly driven by changes in the make-up of the portfolio, as well as improvements in the carbon performance of some of the assets we hold. We, alongside our fund managers have also been engaging with companies over many years on emissions reductions and this may have started to help reduce the overall carbon footprint too.
- › Alongside emissions reductions, we also report on portfolio alignment by measuring the percentage of holdings that have [Science Based Targets Initiative](#) (SBTi)¹ approved decarbonisation targets. 24.6% of assets in our default fund now have an SBTi-approved target, up from 21% last year.
- › As part of the update of the climate change policy, we carried out an assessment of all our external fund managers against the updated policy We refreshed the manager expectations to reflect

¹ The SBTi is a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). Companies submit their decarbonisation targets to SBTi for validation based on sector-specific science-based criteria.

developments in the market, setting new baseline expectations for all managers as well as more targeted objectives. We describe these in more detail on pages 21-22.

- › We are close to meeting our target of investing £1.4bn in renewable energy infrastructure equity and debt by 2030 early. As at March 2025, we had invested £1.34bn.
- › We appointed Campbell Global to manage our first investment in forestry. Well-managed commercial forests make an important contribution to carbon sequestration, and we will start reporting on this in future years. We will not be investing in carbon credits through this mandate.
- › We onboarded Aladdin as our new investment risk system and now use Aladdin's climate data, in particular physical risk metrics, to help us better identify potential risk hotspots in our portfolio. We talk about this in more detail on pages 17-21.
- › We have also continued our stewardship activities. Last year we started engaging with companies in our portfolio as part of Nature Action 100 focusing on issues such as deforestation, water stewardship and plastics. We've also continued our engagement with energy companies and the banking sector. [You can read more about our stewardship activities in our responsible investment report.](#)
- › We continued our work with industry and policymakers. For example, in October 2024, we contributed to a new [energy transition blueprint](#) co-authored by UK and Australian pension funds recommending policy action to unlock pension capital to contribute to the Government delivering on its Clean Power 2030 pledge.
- › From September 2024 to September 2025 a researcher from the University of Oxford was seconded to Nest Invest to help us with several thematic projects with a particular focus on physical risk and nature data. As part of this project we published a [thought leadership paper](#) with UBS Asset Management and the University of Oxford on physical risk data in public markets.

Looking ahead

This was a challenging year for global climate action. 2024 was the warmest year on record. We saw tragic loss of life, billions of pounds worth of damages from extreme weather events such as the California wildfires in January 2025, floods in Pakistan and hurricanes across the US. Geopolitical tensions and inflationary pressures led to some governments and corporates walking away from their net zero commitments. Despite these headwinds, there were also positive developments, with global clean energy investment expect to hit a record \$2.2tn in 2025, attracting twice as much capital as fossil fuels.²

For pension funds like Nest, these developments demonstrate the risks and opportunities presented by climate change. Physical risk assessment continues to be a significant challenge for investors, and one we will remain focused on for this year. As we come to the end of our first set of interim targets, we will also review and update our 2030 target to ensure they remain aligned with our objectives. We look forward to continuing to report on our progress in next year's report.



Brendan McCafferty
Chair, Nest Corporation

1st October 2025

² <https://www.iea.org/news/global-energy-investment-set-to-rise-to-3-3-trillion-in-2025-amid-economic-uncertainty-and-energy-security-concerns>

Introduction

The warming of the planet caused by greenhouse gas (GHG) emissions poses serious risks to the global economy and will have an impact across many economic sectors in which the Nest Scheme is invested. The majority of Scheme members will be invested in the Scheme for decades. Over this time horizon, climate-related risks and opportunities are likely to increase and have an impact on Scheme members' pension pots. As the Trustee of the Scheme, Nest Corporation sees consideration of climate change as a key part of our fiduciary duty to members. For this reason, we have embedded the consideration of climate-related risks and opportunities into our investment strategy.

It is important to the Trustee that Scheme members and other stakeholders have transparency around how we are considering climate-related risks and opportunities. To support this, we are reporting our progress against our [climate change policy](#) on an annual basis against the recommendations of the [Task Force on Climate-related Financial Disclosures \(TCFD\)](#) framework.

The TCFD was set up by the Financial Stability Board to improve and increase reporting of climate-related financial information. It recommends that all organisations, including those in the financial sector, provide climate-related financial disclosures in their mainstream annual report and accounts. As of October 2023, the TCFD has fulfilled its remit and has been disbanded. The Financial Stability Board has tasked the International Financial Reporting Standards (IFRS) Foundation to take over the monitoring of companies' climate-related disclosures and has incorporated the TCFD recommendations in its IFRS S2 Standard on *Climate-related disclosures*.

In line with these recommendations, this accompanying document to the [Scheme annual report and accounts](#) is structured into four sections corresponding to the four thematic areas of the TCFD framework:

In Section 1, 'Governance', we describe the governance of climate-related risks and opportunities, including the oversight by the Trustee and the day-to-day management of these risks.

Section 2, 'Strategy', covers the climate-related risks and opportunities that we have identified over different time horizons and the impact they could have on the Scheme.

In Section 3, 'Risk management', we discuss how we identify, assess, and manage climate-related risks and opportunities.

Section 4, 'Metrics and targets', discloses the metrics and targets we use to manage and monitor climate-related risks and opportunities across the Scheme's portfolios.

This report covers our activities to address and manage climate-related risks and opportunities in our investment strategy during the 2024/25 financial year, which ran from 1 April 2024 to 31 March 2025. Further information on our broader responsible investment activities can be found in our [2024/25 responsible investment report](#) and on [our website](#). Further information on our operational carbon footprint and environmental activities can be found in the [Corporation annual report and accounts](#) for 2024/25.

Section 1: Governance



Governance

The Board's oversight of relevant climate-related risks and opportunities

Nest, the National Employment Savings Trust, was established by the UK government in 2010 to support the introduction of auto enrolment into workplace pensions. The Nest Scheme is run as a master trust by Nest Corporation with the purpose of providing pensions and other benefits to Scheme members.

The Scheme has one Trustee: Nest Corporation. The Trustee is a public corporation. The Board has responsibility for the overall direction of the Trustee. The Board can have between 9 and 15 members, including the Chair. They are the directors of the Trustee.

The Board maintains oversight of climate-related risks and opportunities as part of its remit of having responsibility and oversight for the Scheme's investment policy and strategy. Our duty to serve every employer with auto enrolment duties, and their workers, is written into the [Nest Order and Rules](#) as a public service obligation, like the one the BBC or NHS has. The Nest Order gives the Board the sole power to invest the Scheme's assets. In addition, the Nest Rules confirm that the composition of the underlying investments attributed to each investment fund shall be determined by the Board. The Board cannot delegate the setting of the investment strategy.

The Board delegates some investment decisions to the investment committee, which during the scheme year had five members. Two members of the investment committee members are members of the Board. There are three subject matter experts on the committee who are not Board members. The Board retains the powers relating to, and responsibility for approval of:

- › Our investment objectives, beliefs and related investment strategy, and any proposed changes.
- › The approval of the [Statement of investment principles](#) (SIP).
- › Any additions, changes to objectives, or deletions to fund choices.
- › Any required changes to the body of the investment management agreement with Nest Invest Ltd (see page 10).
- › Our statutory reporting on responsible investment, including the annual [Statement of investment principles implementation statement](#) and this report on our climate change progress.

These continued responsibilities and approvals give the Board confidence that its statutory obligations and fiduciary duties are being met.

The Board has delegated responsibility for review of the above matters to the investment committee, and, where relevant, the committee gives its recommendation to the Board.

In addition, the investment committee has responsibility for:

- › Approval of our [climate change policy](#).
- › Approval of our annual [responsible investment report](#).
- › Oversight and approval of our [responsible investment objectives and policies](#), including our [voting and engagement policy](#) and our [stewardship conflicts of interest policy](#).
- › Annual approval of our [investment risk appetite statement](#).
- › Approval of strategic asset allocation and changes to the investable universe.
- › Review and oversight of the implementation of our agreed investment strategy, activity, costs and performance.

In 2024, we updated the climate change policy. As part of this process, we held an in-depth workshop with the Investment Committee in March 2024 where Committee members provided feedback on the existing policy and steers on strengthening it further. The updated policy was presented to and approved by the Committee in July 2024. It was also presented to the Board in September 2024 prior to its publication on the website.

Time and resources

The investment committee assesses and manages climate-related risks and opportunities supported by quarterly updates and information provided by the Chief Executive Officer (CEO) and Chief Investment Officer (CIO) of Nest Invest. The committee is also provided with detailed papers on all the above matters as required throughout the year. Key performance indicators on climate-related risks and opportunities are provided to the investment committee biannually.

During 2024/25 the investment committee met eight times. In addition to the responsibilities set out above, the committee's work during the year included but was not limited to:

- › Approving the updates to our [climate change policy](#).
- › Maintaining oversight of the investment performance and risk management of the Scheme's default investment strategy and the other fund choices available to members, including approving changes in asset allocations as required.

The Board also receives a regular report from the chair of the investment committee. This includes key updates on the management of climate-related risks and opportunities, where relevant. The Board undertakes periodic training in relation to Scheme governance and Board members' knowledge and understanding. New Trustees receive training on our responsible investment activities, including our approach to climate change, as part of their induction.

The allocation of time and resources is in line with the Board's delegations and approvals. It also reflects the Board's broader remit and the investment committee's specific role to consider, make decisions on and provide oversight and challenge of all investment issues. These allocations are kept under review in light of our improving understanding of the types, likelihood and impact of climate-related risks and opportunities, including the understanding we have developed through the activities documented in this report.

Oversight of those undertaking or assisting with governance of relevant climate-related risks and opportunities

Nest Invest Ltd, a wholly owned subsidiary of Nest Corporation, was authorised by the Financial Conduct Authority (FCA) as an occupational pension scheme firm in January 2020.

Nest Invest's relationship with Nest Corporation is governed by an investment management agreement (IMA) under which Nest Invest undertakes to provide investment management and other investment services to Nest Corporation.

Under the schedules to the IMA, Nest Invest undertakes to:

- › Provide advice, recommendations, and assistance to the investment committee in relation to environmental, social, and governance (ESG) issues, responsible investment, and active ownership. This includes advice, recommendations, and assistance around the management of climate-related risks and opportunities.
- › Comply with and seek to give effect to our policies on responsible investment and other similar policies including our climate change risk policy.
- › Focus on the objective of maintaining the Trustee's reputation with stakeholders and the media as a high-quality responsible investor.

The investment committee, through its terms of reference, is responsible for reviewing whether Nest Invest is taking adequate steps to identify, assess, and manage climate-related risks and opportunities and is given clear direction about how and when it reports to the Board on Nest Invest's work.

Reporting and communications

As noted above, the CEO and CIO of Nest Invest provide updates at least quarterly to the investment committee on the responsible investment activities carried out on the committee's behalf, including in relation to climate change.

In 2024/25 the CEO and CIO's updates included information about:

- › Updates on the progress of the climate change policy review.
- › Our proxy voting activities and company engagement, including how we have engaged with certain sectors on climate change.
- › Our engagement with standard setters and regulators, including responses to public consultations on climate change such as the consultation on the value case for a [UK Green Taxonomy](#).

Informing the investment committee about responsible investment-related activity undertaken during the quarter is a standing agenda item for the committee's meetings. The committee members are given opportunities to check their understanding of this information and, where appropriate, critically challenge the information. Investment committee members have in the past year questioned:

- › The implications of fund managers leaving collaborative engagement initiatives such as ClimateAction 100+.
- › The quality of climate metrics data received from investment managers.
- › The increasing occurrence of extreme weather events and how these risks would be managed.

In response to the investment committee's feedback, management information provided biannually includes:

- › Scope 1, 2, and 3 emissions intensities and decarbonisation trajectory for key mandates, compared to our targets for them. For information on these Scopes, see Section 4.
- › Progress on our chosen portfolio alignment metric and investment in climate solutions.
- › Exposure of asset classes to physical and transition risks.
- › Progress of investment managers against the climate objectives we have set with them.
- › Recent company engagement.
- › Updates on consultation responses and other policy engagement.

Together, the processes described above enable the investment committee – and ultimately the Board – to check that the Scheme's investment strategy adequately prioritises climate-related risks and opportunities.

In line with our internal investment governance framework, information about the Scheme's assets relevant to the identification, assessment and management of climate-related risks and opportunities is shared between persons tasked with these responsibilities. There are clear lines of communication between our responsible investment team and the manager monitoring team as well as with Nest Invest's investment risk and asset allocation committees, all of which meet quarterly.

Training

FCA-certified staff of Nest Invest must complete a minimum of 30 hours of continuing professional development annually. All Nest Invest staff are encouraged to aim for this level of professional development to ensure continued competency in their role. Where appropriate this includes training on climate change issues. The members of our responsible investment team also provide scheduled and on-demand updates on climate-related risks and opportunities to the various internal committees on which they sit, including the asset allocation, investment risk and manager monitoring committees. They also do this quarterly for all staff of Nest Invest as well as annually during Nest's Responsible Investment month during which responsible investment team members and expert guest speakers present responsible investment and climate change related updates. This year, this included a presentation from one of our external fund managers, Campbell Global on sustainability considerations of investing in timberland, including carbon sequestration properties of timber and how Campbell Global assesses and manages the physical impacts of climate change on assets.

Section 2: Strategy



Strategy

Climate-related risks will affect the financial stability of companies and other assets in our portfolio, thereby potentially limiting risk-adjusted returns on the Scheme's investments and the pension pot value available to Scheme members at retirement. If we do not take these risks into account in the investment strategy, our goal to build financial peace of mind for our members could be adversely impacted. So too could our reputation as a good-quality pension provider among employers choosing workplace pension schemes for their workers.

In addition, if members have less trust and confidence in our investment approach, they might choose to opt out of pension saving altogether. We are mindful of the broader impact, beyond the effect on their retirement savings, that climate change will have on our members' lives. Changes in the climatic system and the economic cost of adapting to a warmer planet will shape our members' lives in the coming years. The transition to a low-carbon economy could also have disruptive effects on workers and communities. We also consider these in developing our strategy.

Identifying climate-related risks and opportunities

We consider both transition and physical risks resulting from climate change to be financially material.

 <h3>Transition risks</h3> <p>Risks anticipated to arise from the transition to a low-carbon economy. For example, the introduction of new carbon pricing regulations by governments could increase companies' costs of production.</p>	 <h3>Physical risks</h3> <p>Acute risks of more frequent or severe weather events, such as flooding or droughts, as well as chronic risks of permanent environmental change, such as rising sea levels.</p>
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Transition risks occur as the economy decarbonises towards net zero. They can arise from government policies such as carbon taxes, which raise costs for carbon-intensive companies and could negatively impact their financial value. Transition risks may also arise from new technologies, such as electric vehicles, and changing consumer preferences.

Physical risks could directly impact some of the Scheme's assets, for example, by reducing the ability of some of the companies in which the Scheme is invested to continue to deliver value in all their business activities. They may directly affect the real assets that we invest in, such as property and infrastructure by causing damage to buildings, disrupting operations, and increasing repair and maintenance costs. Physical risks can also create wider socioeconomic problems like food insecurity.

Climate change and nature and biodiversity loss are closely interlinked. Natural ecosystems including vegetation, soils and oceans absorb around half of the carbon emissions generated by human activities. Preserving these natural carbon sinks will be crucial to limit warming.³ Nature can also act as a buffer for physical climate risks, and preserving biodiversity will help maintain the stability of ecosystems and their ability to adapt to changing temperatures.

The financial risks of climate change do not stem solely from environmental considerations.

Climate change will also have socioeconomic impacts which are themselves financially material risks for the Scheme. For example, the transition to a low-carbon economy will lead to the decline of highly carbon-intensive industries, affecting jobs and local communities. Failure to address these impacts could also undermine public support and delay climate action.

³ IPCC, [AR6: Working Group I Chapter 5](#) (2021)

At the same time, we see potential investment opportunities from the transition, which include low-carbon technologies such as renewable energy and electric vehicles. Increasingly, we are also seeing opportunities to invest in adaptation finance, which supports communities to reduce the risks from climate change and the damages from the physical impacts of climate change.

Short-, medium-, and long-term risks and opportunities

For the purposes of identifying the climate-related risks and opportunities which we believe will have an effect on the Scheme's investment strategy, we consider three time horizons:

- › **Short term:** 1 to 5 years
- › **Medium term:** 6 to 10 years
- › **Long term:** 10 years or more

We have defined these time horizons based on how we expect climate-related risks will vary in type and intensity over time.

We expect transition risks to be greatest over the short and medium term and highly dependent on the timing of the transition to a low-carbon economy. We have seen some governments step away from their climate commitments, while others have reaffirmed them. The global policy landscape is therefore quite fragmented, making it difficult for companies to navigate and creating climate-related policy risks that could affect the valuation of companies and assets. Another key element of the transition is technological development, particularly in energy and transport sectors. The market for clean energy technologies such as solar PV, wind, electric vehicles, batteries, electrolyzers and heat pumps grew by almost four times between 2015 and 2023.⁴ This creates risks for incumbents as well as opportunities.

As we progress through this decade with a persisting gap between policies currently in place and those needed to limit warming to well below 2C, we believe abrupt changes in response to climate-related events are now more likely than a gradual transition to 1.5C. If, however, the low-carbon transition is delayed further, there is a prospect that transition risks will become more significant into the long term.

We are already seeing the impacts of physical climate change risks in many regions with extreme weather events increasing in frequency and severity globally and wider disruption to economic activity taking place. We expect these to increase in the medium term, and over the long term and expect physical risks to predominate as average global temperatures rise. In the long term we also believe negative emissions technologies such as carbon capture and storage will need to be developed to counteract residual emissions and ensure a net zero global economy. These could present investment opportunities in the future and are not something we are focussing on at the moment, but will be closely watching how those technologies develop. We are currently engaging with investee companies to understand how they are transitioning to a low-carbon future, including what research and development they are conducting around low-carbon manufacturing processes. We have also started engaging with companies to better understand their resilience to the physical impacts of climate change and how they are adapting to a changing climate.

How we have managed climate-related risks and opportunities

We have developed a scheme-wide climate change policy that sets out why climate change matters to Nest, our view of the key risks and opportunities, and how we are taking action. The objective of the policy is to protect our members from the risks of climate change to their savings and their quality of life in retirement. Based on the analysis presented above, an orderly transition to net zero emissions by 2050 is likely to be in the best financial interests of our members. Our ambition therefore is to align our whole investment portfolio with limiting global warming to 1.5C above pre-industrial levels by reaching net zero carbon emissions by 2050 or earlier. The policy is intended as a high-level, principles-based document that guides our activities. It sets out our long-term ambition but allows us to move in line with market developments, reflecting that the transition to net zero is not linear. It is complemented by a shorter roadmap document which sets out some specific actions for the medium- and long-term.

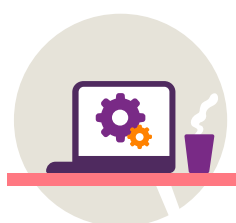
⁴ <https://www.iea.org/reports/energy-technology-perspectives-2024>

In 2024 we undertook a large-scale review of the policy. This included engagement with our fund managers and peers and a workshop with our Investment Committee. While we have not changed the overall ambition of the policy or the key levers we use for implementing it, we identified several areas where the policy could be strengthened.

The main updates include:

- › **Greater focus on physical risks:** The first iteration of the policy focused primarily on transition risk. This was in part driven by the belief that we should do all we can now to support the transition to help mitigate physical risk in the longer term, and in part by the lack of robust physical risk data. We are already seeing the impacts of increasing extreme weather events and believe that it is the right time to make physical risk and adaptation a core part of the policy.
- › **Impacts and dependencies on nature and social issues:** Changes in climate can lead to shifts in natural ecosystems, and conversely, changes in ecosystems can influence the climate. The climate is one of the major factors determining the distribution of flora and fauna, while natural processes like photosynthesis play a significant role in regulating the climate.
The social elements of the transition are often neglected but are crucial to gain buy-in for new policies. Failure to address these impacts could undermine public support and delay climate action. We believe that the social dimension of the transition should be central to our work to ensure that the transition is fair and inclusive – also referred to as a ‘Just Transition’.
- › **The role of climate solutions:** Climate finance flows have been increasing and hit more than \$2tn in 2024 but fall short of the projected \$5.6tn per year until 2030 that is required to deliver net zero emissions by 2050.⁵ This brings investment opportunities, which we wish to access for our members. They include low-carbon technologies such as renewable energy and electric vehicles. Increasingly, we are also seeing opportunities to invest in adaptation finance, which supports communities to reduce the risks from climate change and the damages from the physical impacts of climate change.

The policy sets out four key pillars for implementation that allow us to tackle the risks and opportunities of climate change from a top-down and bottom-up perspective:



Asset allocation and risk management



Manager selection and monitoring



Stewardship



Public policy and advocacy

We have not assigned weights to the different levers we may use as we expect this could change over time, but we have added further information on how we use the different levers and which may be most appropriate to manage different risks and opportunities

We review our asset allocation and manager selection and monitoring below. Stewardship and public policy are covered on pages 26 to 27.

⁵ BloombergNEF, [Energy Transition Investment Trends 2025](#)

Asset allocation and risk management

Nest's in-house investment team is responsible for developing the scheme's investment strategy. This includes deciding which asset classes we invest in. We are committed to managing the risks, opportunities and impacts of climate change as part of this process. We are mindful that in some asset classes there are still significant data and methodology gaps, especially when it comes to physical risks. We therefore also consider climate change considerations at the portfolio level by looking at the underlying assets.

Our asset allocation and risk management workstream includes the following activities:

- › We look for opportunities to invest in the transition. To date, we have invested £1.34bn in renewable infrastructure equity and debt.⁶ In 2024 we also made our first investment in forestry. We appointed Campbell Global to manage a global timberland mandate. Well-managed commercial forests make an important contribution to carbon sequestration, and we will start reporting on this in future years. We consider timberland to count towards Nest's objective to invest more into climate solutions and work with managers to assess the carbon sequestration properties of assets, but we do not net these against our financed emissions, and we currently don't seek to generate carbon credits from the assets we invest in.
- › We exclude companies that make more than 10% of their revenues from, or are developing new projects in thermal coal production or power generation, oil sands, and arctic exploration of oil and gas across the default fund. We believe that these activities are not compatible with the goals of the Paris Agreement, and that companies deriving significant revenues from these activities will struggle to transition quickly enough.
- › We research the impact of climate change on asset-class risks and returns. This includes assessing the impact of different climate change scenarios on our portfolio which we have now included in our Asset Class Dashboard. We describe this in more detail below.
- › We set out key short-, medium- and long-term targets for our portfolio. We have also set an interim goal of reducing the Scope 1+2 carbon footprint in our public equity and fixed income portfolios by 30% by 2025, from a 2019 baseline. Progress against all of our portfolio targets is outlined in section 4.

Resilience of the Scheme's investment strategy under different climate scenarios



The inclusion of the Aladdin Climate analytics, provided by BlackRock, contained in this report should not be construed as a characterisation regarding the materiality or financial impact of that information. The Aladdin Climate analytics include non-financial metrics that are subject to measurement uncertainties resulting from limitations inherent in the nature and the methods used for determining such data.

The Aladdin Climate Analytics are not fixed and are likely to change and evolve over time. The Aladdin Climate analytics rely on comparatively new analysis and there is limited peer review or comparable data available. BlackRock and Nest Corporation do not guarantee and shall not be responsible for the content, accuracy, timeliness, non-infringement, or completeness of Aladdin Climate analytics contained herein or have any liability resulting from the use of the Aladdin Climate analytics in this report or any actions taken in reliance on any information herein.

In line with statutory guidance, we test the resilience of the Scheme's investment strategy under different climate scenarios every three years. In 2024, we onboarded Aladdin as our risk management

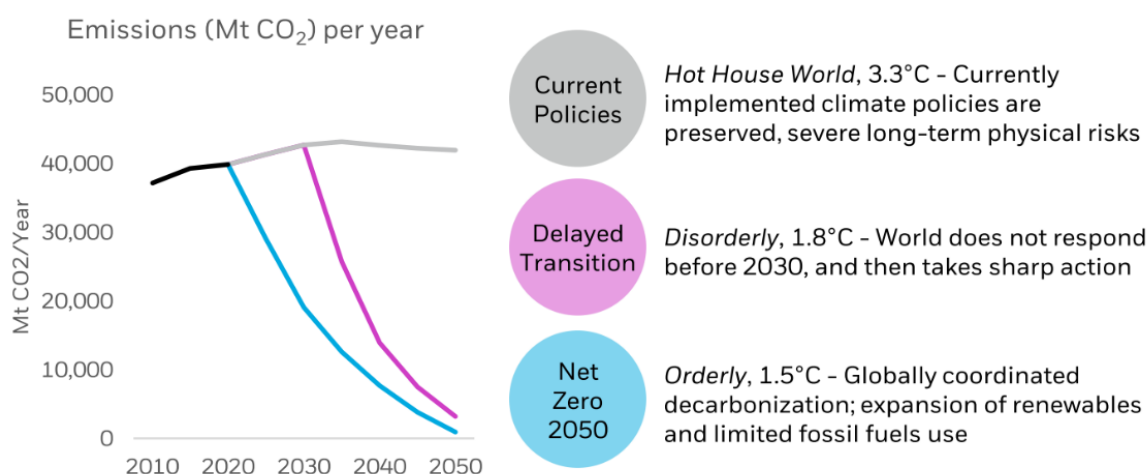
⁶ Includes renewable energy investment exposure across two renewables infrastructure equity funds, two infrastructure equity funds, one infrastructure debt fund and one diversified private credit fund.

system. This includes access to Aladdin’s climate change scenarios, which we are now using to test the resilience of the Scheme’s portfolio under different climate scenarios.

The transition risk assessment uses three scenarios from the Network on Greening the Financial System (NGFS), a network of central banks and supervisory bodies, which works to accelerate the scaling up of green finance and develop recommendations for the financial sector to address climate change. The scenarios, displayed in Figure 1, include an Orderly Transition to Net Zero by 2050, Delayed Transition, and Hot House World where only currently implemented policies are preserved. The model focuses on transition risk factors including policy, legal, technology and market changes, for example through higher carbon prices and taxes and energy user prices. The model has some general assessments which includes transition-adjusted GDP, as well as specific segments for sectors most exposed to the transition (such as energy and transport).

Revenue and location data is taken from third party vendors, however there are input variables which are modelled such as future growth of automotives or power generation capacity splits in Aladdin’s transition risk model.

Figure 1: Climate transition scenarios from NGFS



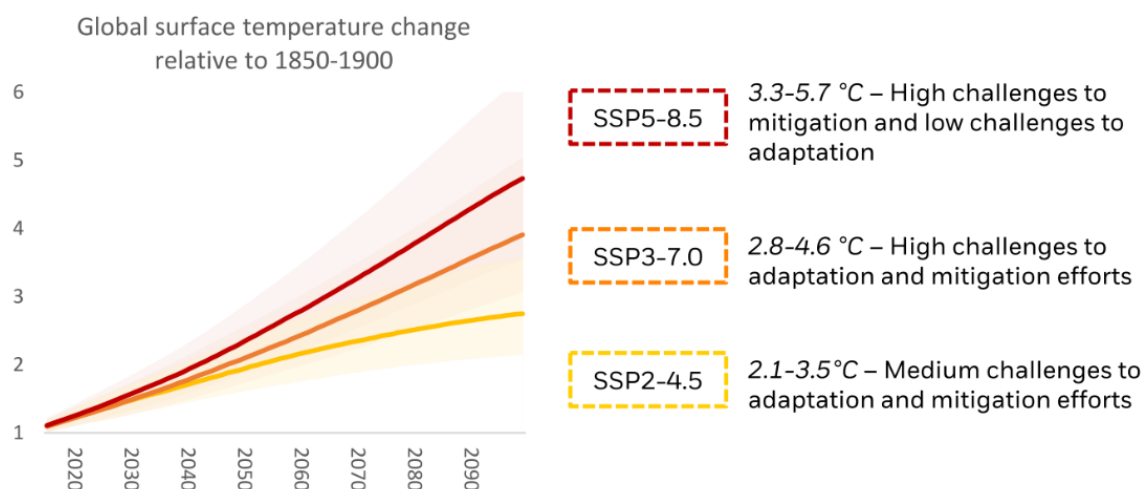
Source: Aladdin Climate, 2024

The physical risk assessment uses the Intergovernmental Panel on Climate Change (IPCC) scenarios, which show different pathways and temperature rises to 2100 (Figure 2). The IPCC produces multiple shared socioeconomic pathways (SSPs) which model different assumptions on socioeconomic factors including population, economic growth, education, urbanisation and the rate of technological development in the face of climate change. SSP2 describes a “middle of the road” world where trends broadly follow their historical patterns, SSP3 a fragmented world with high challenges to mitigation and adaptation, and SSP5 world of fossil fuel-led rapid and unconstrained growth in economic output and energy use.

The model covers a number of key hazards including temperature, tropical cyclones, sea level rise, inland flooding and wildfires, and assesses these hazards’ impacts on macro (such as GDP, employment and mortality) as well as micro variables (such as energy expenditures and crop yields). Both revenue and operational risk is evaluated for corporate operations. For sovereigns⁷, climate risk is assessed at territory (geographic area) level and aggregated to country level.

⁷ ‘Sovereign’ investments refers to financial instruments, like bonds, which have been issued by governments or state bodies.

Figure 2: Climate physical risk scenarios from IPCC



Source: Aladdin Climate, 2024

Aladdin uses these inputs to determine the impact on financial performance, based on company characteristics, and calculates adjusted valuations and probability of default based on the financial impact. For corporates this is based on discounted cash flow analysis. For sovereigns it includes bond prices and probability of default.

Assets can only be measured for climate reporting where relevant and sufficient climate data is available to do so. According to data availability, the asset classes included in the analysis are listed equities, corporate bonds, sovereign bonds and listed real estate assets (Real Estate Investment Trusts or REITS).⁸

Impact of these risks on our assets

The results are quite similar to the analysis we carried out in 2022 which show that in the long-term our portfolios perform best in a net zero scenario due to the increasing impact of physical risks.

We've included a selection of the results for the total portfolio, default fund and fund choices in Table 1 below.

The table shows the climate adjusted values under different climate scenarios relative to a counterfactual base case scenario. For transition risks, the base case is the NGFS Current Policies scenario, which assumes that current implemented policies play out, but no climate policies are added. For this reason, the climate adjusted value for this scenario shown in the table is 0. In this scenario, emissions rise until 2080 leading to c. 3C of warming and severe physical risk – a “hot house world”. For physical risk, the base case is no further physical climate risk.

Transition physical climate adjustments are expressed as a percentage impact, determined by climate-related damages and the financial situation of the company at year end. The percentage climate impact does not reflect short term fluctuations in the market as it is a quantification of climate risk only, while the company's share price may reflect other unrelated market dynamics.

⁸ Further information on the methodology can be found here: <https://www.blackrock.com/aladdin/products/aladdin-climate>

Table 1: Climate-adjusted values across different climate scenario

Portfolio	Physical risk climate adjusted value			Transition risk climate adjusted value			Data coverage
	SSP2-4.5: 2.7°C by 2100	SSP3-7.0: 3.6°C by 2100	SSP5-8.5: 4.4°C by 2100	Orderly: Net Zero 2050	Disorderly: Delayed Transition	Hot House World: Current Policies	
Total portfolio	-3.3%	-4.2%	-5.1%	-3.9%	-3.0%	0%	82%
Default fund (2045 Retirement Date Fund)	-3.4%	-4.4%	-5.3%	-4.1%	-3.1%	0%	81%
Ethical Fund (Growth Stage)	-3.5%	-4.4%	-5.5%	-2.0%	-2.1%	0%	79%
Sharia Fund	-4.8%	-6.1%	-7.4%	-3.3%	-4.0%	0%	68%
Higher Risk Fund	-4.4%	-5.6%	-6.8%	-5.3%	-4.0%	0%	92%
Lower Growth Fund	-0.1%	-0.2%	-0.2%	-0.2%	-0.1%	0%	95%

Source: Climate values provided by Aladdin, fund values provided by Nest. Analysis as at 31 March 2025. Data coverage refers to % of assets with climate adjusted value

The results show that our portfolio is very likely to be impacted by the impacts of climate change, and physical risks are expected to be more severe than transition risk.

Key insights from the analysis include:

- › The analysis shows that equities are most at risk from both transition and physical risks. Fixed income assets are less exposed, though our high-yield portfolio has a bigger potential value at risk in an orderly transition scenario than other fixed income assets, due to the relatively high allocation to US energy companies.
- › Due to their high allocation to equities, the Ethical, Higher Risk and Sharia fund choices have a higher exposure to climate risks than the default fund.
- › Equities are most exposed to transition risks such as policy interventions and technological developments impacting valuations. Decomposing this further, the key drivers for this are lower GDP due to the costs of implementing the transition and specific transition impacts in the transport sector.
- › Equities are also most exposed to physical risks, with emerging market equities more exposed to physical risks than developed market equities. The main impacts from physical risks are revenue impacts from rising temperatures followed by tropical cyclones.
- › The biggest sectoral physical risk exposures are in consumer discretionary, industrials and information technology.
- › Regional exposures also vary. We see the biggest adjustments from physical climate change risks in China, the United States and Australia.

How we have used this analysis

We include two scenarios (the disorderly transition scenario and the 4.4C physical risk scenario) in our asset class dashboard and update the analysis quarterly. The asset allocation committee reviews this data and can factor it into its decision-making process. For example, the high climate risk exposure of emerging market equities was a useful input into our re-underwriting of the asset class during the year and has helped us formulate new expectations on managing physical risks for fund managers in this asset class.

As the data also allows us to look through to underlying portfolio holdings, we can identify risk hotspots and use the data to better engage with our portfolio managers and prioritise companies for engagement.

We have already implemented steps to manage transition risks in our portfolio starting with equities as the asset class most vulnerable to valuation changes. This includes moving our entire equity allocation into climate-aware and thematic mandates. Physical risks have been more challenging to manage and are currently primarily addressed through stewardship in public markets. The analysis supports our continued focus on physical risk. We are also further diversifying our portfolio and increasing our investment in private markets, where we have a target allocation of 30%. While private markets include a diverse set of sub-asset classes, such as infrastructure and forestry, they are generally less exposed to transition risk and can also give us exposure to transition opportunities. These assets can however be quite exposed to physical risk. We expect managers of real assets (including property, infrastructure, and forestry) to assess the physical risk exposure of their assets and take measures to improve the resilience of assets to key impacts such as flood risk.

Limitations and next steps

We currently only have this analysis for corporate and sovereign issuers and are unable to run it on our private market assets due to a lack of granular information about the location of these assets. We supplement it with more qualitative assessments of the physical and transition risk exposure for these asset classes, or with scenario analysis carried out by our investment managers where this is available.

The analysis relies on complex models with a lot of assumptions and it's difficult to predict the future, as the effects of climate change are not likely to be linear. Potential tipping points in particular are difficult to model. These figures may therefore underestimate the risk of climate change to our portfolio, and we recognise that we should not anchor ourselves to specific numbers. Instead, we use the scenarios to help us understand relative risk across asset classes. As a next step, we are working on a project to include climate scenarios in our long-term capital markets assumptions and shorter term (3-5 year) asset class views.

Manager selection and monitoring

Asset allocation and manager selection and monitoring are closely linked. The Scheme's total portfolio is made up of different asset classes and individual portfolios managed by external investment managers.

To keep the Scheme's whole portfolio in line with the goals of the Paris Agreement, we need to work towards aligning all of the underlying investment funds which are the building blocks of the portfolio.

As part of the update of the climate change policy, we refreshed the manager expectations to reflect developments in the market. All managers are expected to:

- › Identify, assess and manage the physical and transition risks of climate, and key impacts and dependencies on other environmental and social issues
 - › Where feasible, set portfolio-level decarbonisation and portfolio alignment targets
 - › Use their stewardship resources to manage climate change risks and encourage companies to set net zero targets and robust transition plans
 - › Take a consistent approach to managing the risks of climate change and not undermine progress made on climate-aware strategies by counteraction elsewhere in the business
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- › Disclose key climate-related information to clients
- › Work with clients and peers to stay informed on the latest scientific, policy and industry developments.

In addition to these high-level objectives, we also set more targeted objectives and benchmarks for each manager. These are dependent on the asset class and how far they have already progressed in evolving their investment approach towards a low-carbon economy. Our initial objectives for fund managers for 2020-2023 were focused on disclosure and target-setting. We made good progress against them with a total of 83% objectives met.

Over the last year, we have assessed our managers against the expectations of the climate change policy and developed new objectives for them. Examples of these include:

- › Asking managers to build out their stewardship resources and expand engagement programmes to include physical risks and the Just Transition
- › Asking our private markets managers to work with us to develop an approach to assessing investment in climate solutions beyond renewable energy
- › Asking managers to develop a framework for assessing the alignment of companies or assets with the goals of the Paris Agreement.

We will report on progress against these objectives annually.

Section 3: Risk management



Risk management

Our responsible investment objectives explain that we seek to identify and manage ESG-related risks and opportunities across the Scheme's portfolio where we believe doing so leads to lower risk or enhanced returns.

Processes for identifying, assessing, and managing climate-related risks

Governance of climate-related risk management

Nest Invest has established an investment risk committee which meets quarterly.

The investment risk committee's overriding objective is to provide investment risk and performance reporting to both the Risk Committee of Nest Corporation and the CEO of Nest Invest which is independent of the Investment Management functions.

It oversees investment risk management activities across the investment process – asset allocation, manager selection, implementation, and monitoring – and makes decisions on:

- › The risk management process.
- › Risk mitigation measures and resolutions.
- › Proposals for changes to existing risk limits or targets, including the inclusion of new risk limits or controls.

The investment risk committee monitors risk management activities across the different teams within our investment risk governance structure to help ensure adequate checks and balances are embedded consistently.

Included in the investment risk committee's terms of reference are specific responsibility for reviewing and assessing relevant climate-related risks and ensuring that these risks are integrated across the investment management process.

Identification of climate-related risks

We identify climate-related risks through a range of tools and approaches. These include:

- › Regular reporting from external investment managers on key climate metrics including total portfolio emissions, fossil fuel reserves, top carbon emitters, the proportion of assets that have set net zero targets and the proportion of assets under engagement.
- › Climate change scenario analysis through the Aladdin risk system.
- › Research and trends identified by our external investment managers, research procured or received from external data providers and engagement with a range of industry groups. Between September 2023 and September 2024, a researcher from The University of Oxford was seconded to Nest Invest to help us with assessing different data sets for physical climate and nature risks across asset classes.
- › Crowdsourcing across our investment team through a regular 'risks and opportunities radar' survey.
- › Meetings convened with respect to our internal investment governance framework, including for example through the oversight of the investment risk committee.

Assessment and management of climate-related risks

We take a proportionate approach to the assessment and management of climate-related risks. We have used a traditional impact and severity approach consistent with our assessments of other risks, the materiality of the Scheme's exposure and the implications for investment strategies.

We have identified financial and strategic climate-related risks, over the short, medium, and long term. These include that:

- › Policy announcements on regulations to curb global warming happen faster or slower than expected. Examples of this might include the sudden introduction of a carbon tax or a sales ban on vehicles with petrol or diesel engines. It could also mean removal of subsidies. Investors and businesses may be unprepared, or customers might shun unsustainable businesses and products. Either of these would mean our portfolio becoming increasingly misaligned with net zero.
- › We identify the decarbonisation trajectory in our policies, but our investment team or our external investment managers fail to appropriately implement it in our investment process.
- › The physical risks of climate change affect assets and companies in the Scheme's portfolio, impairing their profitability.

Our assessment is that, without appropriate controls and mitigations, climate-related risks have the potential to be a critical risk to the Scheme. For this reason, we have established a number of processes to control and mitigate them. Our controls and mitigations include:

Ongoing

- › Investing the Scheme's equity and public fixed-income allocations in climate-aware funds, allowing us to decrease exposure to those companies most likely to be financially impacted by policy changes and the transition to the low-carbon economy.
- › Increasing the Scheme's exposure to investments in line with the low-carbon economy.
- › Increasing the Scheme's investment in alternative asset classes, particularly in renewable energy, to take advantage of investment opportunities in the low-carbon transition.
- › Excluding the most environmentally damaging business activities, particularly those like thermal coal, oil sands, and arctic drilling and exploration, which are likely to be phased out first in the low-carbon transition.
- › Voting and engaging with companies on climate change including participation in industry climate initiatives such as the Institutional Investors' Group on Climate Change and Climate Action 100+.
- › Engaging with the highest risk companies in the economy to encourage them to transition towards the low-carbon economy and net zero emissions. This engagement is covered in more detail in our [responsible investment report](#).
- › Setting short- and medium-term targets to help us measure and assess our progress towards our net zero goals for the Scheme's portfolio. These are covered in Section 4.

Quarterly

- › Having the investment committee review climate-related risks and the controls and mitigations in our investment risk register.

Semi-annually

- › Having the investment committee review our progress on climate change risk metrics and targets.
- › Reviewing investment managers' performance against their specific climate change objectives and benchmarks to progress the mandates they manage for the Scheme in line with reaching net zero targets in the medium and long term. Where progress is poor, monitoring is stepped up and they are placed on a watchlist, with next steps discussed at manager monitoring committee meetings.
- › Reviewing all investment exclusions against current company revenues where we screen out investments based on a percentage of revenues coming from thermal coal, oil sands and arctic drilling and exploration.

Annually

- › Having the investment committee review our climate change policy and whether it remains fit for purpose. This sets out our approach to manage climate change risk across the Scheme's portfolio through asset allocation, exclusions and, where necessary and after voting and engagement, divestment from companies ill-prepared for the transition to a low-carbon economy. All changes are
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clearly communicated to our external investment managers. We last reviewed and updated our climate change policy in 2024.

Our assessment of climate-related risks

We believe that climate change is a systemic risk that will impact the entire economy and our ability to influence the likelihood of these risks manifesting is limited, though we can take steps to reduce our exposure to these risks. In the past year, given geopolitical and regulatory changes, we increased the likelihood of the risk of climate change impacting investment returns to possible to very likely.

Integrating processes into overall risk management

We have incorporated climate-related risks into our existing risk management framework and enterprise risk register utilising the same process for identifying, assessing, and managing climate-related risks as for other financial and strategic risks.

Climate-related risks could have both a financial and strategic impact on the Scheme. This is captured under one of the principal risks in our risk management framework – the risk that our investments fail to perform to targets or that stakeholders, in particular members, could lose confidence in our investment approach. In other words, we do not view climate change as a new risk category within our risk management framework. Instead, climate-related risks are mapped into our existing risk categories.

The principal risks are discussed and monitored by Nest Corporation's executive committee.

By integrating climate-related risks into our overall risk management framework, we seek to ensure that all relevant functions, departments, and experts are involved in the integration and ongoing management of these risks. Our risk framework is designed to ensure that a robust and consistent approach to risk management is applied to drive improvements in our risk management in line with our risk appetite – the level of risk that we are prepared to accept while pursuing our strategic priorities.

The framework also ensures there is both individual and collective accountability for risk management, risk oversight and risk assurance. We use the industry best-practice three lines of defence model:

1. The people doing the job – those who own day-to-day controls and processes to manage risks.
2. The control function – those providing assurance to senior management that processes and controls are operating properly.
3. Internal and external audit teams – independent, specialist auditors who provide in-depth analysis to the board.

Stewardship

We actively employ stewardship as a mechanism to manage climate-related risks, both to reduce the impact on the Scheme of abrupt policy responses leading to a disorderly transition, or the likelihood of a shock to the financial system from catastrophic climate change. We believe that all companies have a role to play in the low-carbon transition and building resilience against the physical impacts of climate change. They can do this through:

- › **Managing direct emissions** generated by their operations.
- › **Managing indirect emissions**, for example, the emissions generated through their supply chains and financing decisions.
- › **Directing capital expenditure** towards developing low carbon technologies and investing in adaptation and resilience.
- › **Aligning their public policy and lobbying activities** with their net zero commitments.

Engaging with companies is usually a first step in understanding how they are managing climate change risks. This is particularly important for issues where data is poor, such as resilience to physical climate change risks. We also use stewardship to hold companies accountable on their net zero commitments and push them to transition their business model in line with the goals of the Paris Agreement. In our experience, collaborating with other investors, and taking targeted action with a

select number of companies is more likely to lead to positive outcomes than engaging individually with a broad range of companies. We seek to focus our engagement on the most systemically important companies within key climate sectors, such as oil & gas companies and banks.

Stewardship activities are primarily carried out by our external fund managers. Nest's responsible investment team also engages directly and through collaborative initiatives such as Climate Action 100+.

Our stewardship activities are described in more detail in our annual [responsible investment report](#).

Public policy and advocacy

Policy and regulation are essential to correct the externalities of climate change and achieve the goals of the Paris Agreement. Policymakers also play a role in creating an environment for investors to make investments in the transition, for example by subsidising climate solutions (or removing subsidies encouraging the use of fossil fuels).

We believe that investors have a role to play in encouraging policymakers to create a regulatory environment that facilitates the transition to net zero emissions. We will contribute actively to the public discourse on climate change risks and opportunities as one of the UK's largest pension schemes by membership. This includes addressing how climate change will affect the pensions industry and the global economy and what policy makers can do to help mitigate the risks for the pensions industry.

We continue to exchange views and work with our peers in the financial sector on climate change issues, both directly and through industry groups such as the Institutional Investors Group on Climate Change (IIGCC) and the UK Sustainable Investment and Finance Association (UKSIF). Our public policy and advocacy work focuses on the following areas:

- › **Disclosure:** We are supportive of developing consistent global disclosure frameworks, such as the International Sustainability Standards Board ([ISSB](#)) disclosure standards and the work of the [Transition Plan Taskforce](#), and advocate for transposing them into regulation.
 - › **Real economy policy:** We engage with policymakers to design policy instruments, regulation and standards to support the transition to net zero and to address regulatory barriers to investing directly in climate solutions, such as reforms to planning and permitting regimes to support renewable energy infrastructure. For example, in October 2024, we contributed to a new [energy transition blueprint](#) co-authored by UK and Australian pension funds recommending policy action to unlock pension capital to contribute to the Government delivering on its Clean Power 2030 pledge.
 - › **Raising awareness:** As the pension provider for millions of people in the UK, we will use our voice to raise awareness publicly about the climate crisis and what we are doing to manage climate change risks for members. This includes highlighting the impacts of climate change on workers, communities, supply chains and customers. We will also encourage policymakers to consider the twin crises of climate change and nature and biodiversity loss when developing policy. For example, in March 2025, we published a [thought leadership paper](#) with UBS Asset Management and the University of Oxford on physical risk data in public markets setting out the challenges of using the data today, as well as potential actions for asset owners and managers, data providers and regulators.
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Section 4: Metrics and targets



Metrics and targets



The data reported in the metrics and targets section has been obtained from the investment managers of each portfolio. The draft report was shared with the investment managers for verification prior to publication. Nest Corporation assumes no responsibility for the accuracy of the data.




Our chosen metrics

Absolute financed emissions and emissions intensity metrics

Our key reported metrics are financed carbon emissions, which are the emissions associated with our investments. Measuring financed emissions is a key metric for understanding our contribution to climate change, as well as understanding our exposure to climate-related risks across the Scheme's portfolios. We also use this data as a starting point for setting mandate-level decarbonisation targets that are in line with our long-term ambition of net zero emissions by 2050 or sooner. These will be regularly reviewed and updated over time as net zero pathways for different asset classes become clearer.

We report on financed Scope 1, 2, and 3 greenhouse gas (GHG) emissions in tonnes of carbon dioxide equivalent (tCO₂e) emissions – that is, absolute emissions – across our building block funds. Absolute financed emissions are a function of the total emissions of the assets in our portfolio, adjusted for the share that Nest holds in each asset. This means that as the Scheme's total assets under management continue to grow and we put more money into each asset, total financed emissions will go up in the short term.

We also measure an emissions intensity metric by calculating the emissions per million pounds (tCO₂e /£m) invested or financed, known as the carbon footprint. Assessing emissions per million pounds invested helps us to better understand whether the Scheme's exposure to climate-related risks has changed by identifying whether the assets we are investing in are reducing their emissions.

 <h3>Scope 1</h3> <p>Direct emissions from the reporting company's owned or controlled.</p>	 <h3>Scope 2</h3> <p>Indirect emissions from the generation of purchased electricity, steam, heating and cooling that has been consumed by the reporting company.</p>	 <h3>Scope 3</h3> <p>All other indirect emissions that occur in the reporting company's value chain.</p>
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Source: [Greenhouse Gas Protocol](#)

Our methodology and its limitations

Wherever possible we have followed the GHG emissions accounting and reporting standard developed by the [Partnership for Carbon Accounting Financials](#) (PCAF) when calculating the emissions attributed to the Scheme's investments.⁹ This means calculating our share of the emissions of the financed asset using a ratio between the amount we have invested in the asset (such as the market value for equity investments and the book value for debt investments) and the value of the financed asset (for listed assets this is enterprise value including cash, or EVIC).

⁹ carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf

This attribution factor is not suitable for all asset classes. Governments, for example, do not have an enterprise value. Our emerging market debt manager uses consumption-based emissions to attribute emissions from sovereign debt holdings, which takes into account emissions resulting from the final use of goods and services in a national economy, including imported emissions. Another approach is to only measure emissions from goods and services produced within the country. This approach is used by some of our other fixed income fund managers. Measuring consumption emissions gives a more holistic assessment of a government's role as a regulator than production emissions, but it can lead to double counting. This is because emissions are attributed both to the sovereign as well as the companies operating in the economy, in which we may have investments in other parts of the portfolio. It is also difficult to categorise sovereign emissions as Scopes 1, 2, or 3. We have therefore chosen not to include the sovereign debt emissions in the table.

In private markets (private credit, private equity, and private infrastructure equity), there are few data providers that are able to estimate emissions, so where data is not reported directly there can be significant gaps in reporting. It can also be challenging to obtain EVIC data for private issuers. As a result, some of our managers instead report on Weighted Average Carbon Intensity (WACI), which uses revenues as an attribution factor, as this data point is more readily available. This methodology gives slightly different emissions figures to the metrics using EVIC. As a result, we have not included portfolios in the data tables where we were only able to obtain WACI data. We are working with our investment managers to improve the quality and comprehensiveness of data in this area.

Portfolio alignment metric

Portfolio alignment metrics are forward-looking metrics that can provide an indication of the exposure of a scheme to climate-related transition risks and opportunities. Methodologies and approaches are still evolving. The percentage of portfolio with net zero targets is the simplest and most transparent approach and allows for a basic assessment of the extent to which a portfolio is committed to net zero. We are only including targets that have received third-party validation through the [Science Based Targets Initiative \(SBTi\)](#)¹⁰ to ensure that targets are scientifically robust. The SBTi methodology only applies to companies, so we are not currently able to measure alignment for other asset classes such as sovereign debt and commodity futures. A key drawback of the binary target approach is that only the alignment of investments with validated targets is known, which is currently a relatively small proportion of the total portfolio. The speed at which coverage increases is dependent on the resources of SBTi. The approach also does not differentiate between companies that have identical targets, but a different distance to achieving them.

Neither financed emissions nor portfolio alignment metrics are perfect, but combining these metrics gives a more holistic picture of Nest's progress in meeting its net zero ambition.

Data quality metric

We are also reporting on data quality as an optional metric. Our investment managers receive carbon emissions information from a range of sources including directly from companies or assets, from external data providers such as MSCI or Trucost, or estimate them internally using proprietary modelling. We have asked our managers to disclose the proportion of assets for which data was reported, estimated or unavailable and have reported this as a data quality metric in the data tables below. Where data is unavailable, this is because the companies or projects in which the Scheme is invested are not reporting it, and estimates have not been produced by our investment managers or their contracted data providers to fill those gaps.

Where data has been estimated, these estimates have been made by our investment managers or contracted data providers using company energy consumption, output and revenue, combined with relevant emissions' factors for that energy source, product or sector, as well as other assumptions.

We have found that the proportion of reported emissions data from companies varies significantly across asset classes. Gaps in reporting are generally filled by estimates carried out by data providers

¹⁰ The SBTi is a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). Companies submit their decarbonisation targets to SBTi for validation based on sector-specific science-based criteria.

using proprietary methodologies. This means that the emissions figures for the same company could be different depending on which data provider was used, which can be challenging when aggregating data across portfolios. This is a particular issue for Scope 3 where the majority of available data has been estimated by third-party data providers, **so this data should be treated with caution.**

Nest works closely with its managers and other industry groups to improve disclosure of high-quality data. We also engage directly with investee companies on their own TCFD disclosures through the Climate Action100+ collaborative investor initiative.

Default strategy

The below tables show the selected metrics for the Scheme’s default strategy, by asset class. The majority of members (currently over 98%) will be invested in Nest’s default strategy, made up of around 50 tailored retirement date funds. Nest’s flagship default strategy provides a fund for each year in which we expect a member to retire. The actual asset allocation will vary depending on the year of retirement. As at 31 March 2025, total assets under management were £49.2 bn, of which 94.8% was in the default strategy; Figure 3 shows the asset allocation of the default strategy on 31 March 2025, compared with 31 March 2024.

Figure 3: Asset allocation in the default strategy

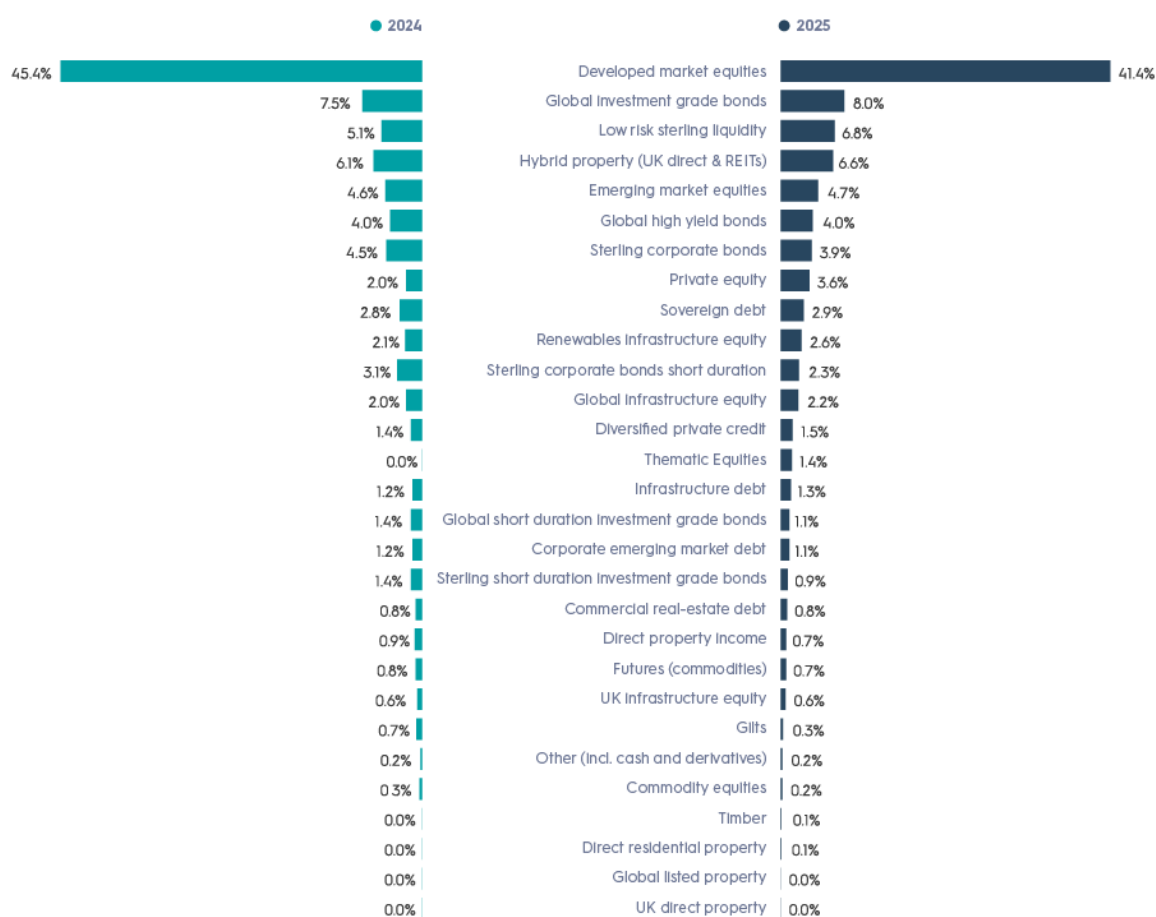


Table 2 below aggregates the relevant metrics for each underlying portfolio within an asset class to give an overall metric. It does not include sovereign debt, liquid assets, or private credit, cash or derivatives, due to the challenges of collecting robust and comparable data. These omitted asset classes make up c.16% of the portfolio.

Default strategy metrics by asset class

Table 2A: Default strategy carbon emissions metrics by asset class

Asset type	% of total portfolio	Absolute emissions (tCO ₂ e)		Carbon footprint (tCO ₂ e/£m)		Year-on-year change in carbon footprint (%)	
		Scope 1+2	Scope 3	Scope 1+2	Scope 3	Scope 1+2	Scope 3
Equities	46.1%	1,182,401	2,777,980	38.6	103.4	-5%	-3%
Corporate Bonds	22.1%	607,875	3,948,010	61.2	338.7	-29%	+24%
Property	6.8%	3,094	38,079	0.03	11.1	-99%	-55%
Infrastructure Equity	4.6%	133,098	347,721	25.8	92.7	-33%	+387%
Private Equity	3.5%	55,786	645,567	78.2	398.4	n/d	n/d
Total	83.0%	1,982,254	7,757,358	32.7	645.9	-20%	+461%

Table 2B: Default strategy data quality and portfolio alignment metrics by asset class

Asset type	Data quality – % of holdings for which						Portfolio alignment (% of assets with SBTi target)
	Scope 1+2 data			Scope 3 data			
	Reported	Estimated	Unavail-able	Reported	Estimated	Unavail-able	
Equities	38%	59%	3%	30%	67%	3%	41%
Corporate Bonds ¹¹	78%		22%	77%		23%	24%
Property	100%	0%	0%	57%	43%	0%	0%
Infrastructure Equity	80%	20%	0%	65%	35%	0%	n/a
Private Equity	12%	80%	0%	12%	80%	0%	n/a
Total							

n/d: denotes no data; n/a: denotes not applicable for the asset class. Notes: one of our corporate bond managers has switched to a new data provider which provides more granular emissions data; year-on-year figures in the table are based off 2024 figures for those funds which have been restated using the new data source.

What the data shows

There are several reasons why the carbon footprint may vary from year to year, including:

- › Changes in the carbon emissions reported by the underlying assets
- › Changes in asset allocation, for example by allocating more money to less carbon-intensive asset classes
- › Changes in the methodology used to estimate emissions that are not directly reported by the assets
- › Changes in data providers, which may lead to changes in estimated emissions where emissions are not reported
- › Changes in the attribution factor. The carbon footprint metric based on EVIC is quite sensitive to market volatility and can lead to fluctuations in the metric that are not driven by changes in the

¹¹ We were unable to obtain a breakdown of reported versus estimated emissions for all portfolios in this asset class. The figures are therefore aggregated to show the proportion of assets for which data was available.

actual emissions of the underlying asset. For example, if a company's market capitalisation falls while total debt remains the same, a bigger proportion of the company's emissions will be attributed to bondholders.

We expect that in the next few years, the carbon footprint may still fluctuate as more companies report data directly and we become less reliant on data estimation. Our fund managers also engage with companies throughout the year on emissions reductions and better reporting.

In the longer term, we expect that asset allocation and decarbonisation of the underlying assets will become the main drivers of the carbon footprint.

Below we give more detail on the changes in the carbon footprint from last year for each asset class:

- › **Equities:** 87% of our total equities allocation in the default strategy is in our climate-aware developed market equities fund. This fund has a lower carbon footprint than the other three equity funds (emerging market equities, commodity equities, and thematic equities). Compared with March 2024, the Scope 1+2 carbon footprint of our equities allocation decreased by approximately 5%. The Scope 3 emissions footprint declined slightly year-on-year; one factor for the footprint not falling further was a greater relative allocation in the commodities equity portfolio to precious metals mining companies, which have a high Scope 3 emissions intensity given the energy-intensive nature of extraction, refining and transporting minerals. We have also onboarded a new thematic equities mandate this year. One of new strategy's goals is to invest in climate solutions, which often have a higher carbon intensity at the point of investment with the aim of decarbonising their activities over time.
- › **Corporate bonds:** Our corporate bonds allocation includes investment grade (global and sterling), high yield, and emerging market bonds. The increase in the carbon footprint of the bond portfolio was partly driven by one of our fund managers moving to a new, more granular, carbon data provider, which saw the fund's assessed emissions increase. Emissions from the investment grade bond portfolio declined by 17% year-on-year, as the manager sold its holdings in Glencore and Vistra Corp, which had been two of the largest sources of emissions in the fund last year. Emissions from our (smaller) short duration investment grade bond fund increased following Prysmian SPA and Bunge Global entering the portfolio. The carbon footprint of the emerging market corporate bonds portfolio fell following a decline in the relative value of positions of two oil companies and a cement producer, which are large contributors to the fund's emissions footprint.
- › **Property:** The property section of the default fund is invested in a mix of managed investments in UK properties and a property income fund. Over the last year we sold our investments in listed property (which was held via Real Estate Investment Trusts (REITs)), which contributed to the substantial reduction in the measured emissions footprint of our property portfolio. This sale also contributed to the percentage of property assets covered by SBTi aligned targets falling from 13% to 0%, as listed companies are no longer in the portfolio. The energy emissions of the properties in the income and direct investment funds are primarily classed as Scope 3, and our manager is working to improve the Scope 3 coverage for both funds (currently 92% and 51% for the income and managed UK fund, respectively) via greater automation of energy data collection. The income fund's emissions footprint decreased year on year due to lower occupier energy consumption, sales of some portfolio properties, and a significant refurbishment of one property which lowered its energy consumption. The UK managed investment fund saw an increase in its absolute Scope 3 emissions attributed to the manager starting to disclose Scope 3 emissions of indirectly held investments, in line with best practice. The manager is continuing to phase out gas across the portfolio's assets, and emissions from directly held assets fell as a result.
- › **Infrastructure:** The infrastructure allocation is mostly invested in global core infrastructure and renewable infrastructure, with a smaller allocation to UK infrastructure. The renewable infrastructure fund in which we invest made 17 new investments and saw three wind farms and three solar farms move from construction to operation; these new additions led to an increase in the fund's scope 3 emissions (although the scope 1 and 2 footprint fell by 10%). One of our other infrastructure equity managers has seen a marked improvement in ESG data disclosures from portfolio companies, which has led to a significant increase in the fund's carbon footprint since last year. The manager expects greater stability in figures going forward.
- › **Private equity:** This is the first year we are reporting on our private equity holdings, so we cannot provide a year-on-year change in the fund's footprint. Our private equity funds invest across a range

of industries, including healthcare, industrials, and technology. We are currently working with one of our private equity fund managers to identify exposure to climate solutions held via the fund.

- › **Total default fund strategy:** Across the default strategy, scope 1 and 2 emissions fell by 20% compared to last year. This was largely due to a 5.1% reduction in equities carbon footprint, which makes up 46% of the strategy, and a 29% reduction in the corporate bonds allocation, which comprises 22% of the fund. The scope 3 footprint of the strategy increased, largely due to the addition of private equity allocation to the reporting and as a result of a large increase in the infrastructure equity emissions, which was driven by better data reporting from one of our managers.
- › **Alignment metric:** The proportion of assets with a validated SBTi target increased from 20% last year to 24.6% this year. This was due to a higher proportion of issuers with accredited targets in the global investment grade bond, commodity, and high yield bond funds.

Fund choices

In addition to the default fund, we offer a number of other fund choices for our members. These are:

- › **Ethical Fund:** The Nest Ethical Fund is for people who want to invest in line with specific ethical or moral concerns, for example in areas such as human rights and fair trade. It doesn't just exclude companies that harm the world, its people, or the environment, it also proactively invests in organisations that make a positive contribution to society. The fund invests in a range of asset classes to manage risk appropriately at different stages of members' lives. It follows a dynamically managed, three-stage glide path which is similar to our flagship Nest Retirement Date Funds. We have chosen to display the ethical growth stage fund as most of our members will be in the growth phase fund for a long time. About 60% of this fund is invested in equities, with the remainder in corporate bonds, property, renewable equity infrastructure and liquid assets.
- › **Sharia Fund:** The investments in this fund are screened by Islamic scholars to meet Sharia standards. Lifestyling at the asset allocation level is not currently possible for this fund as it invests entirely in a two asset classes – equities and bonds.
- › **Higher Risk Fund:** The Higher Risk Fund is for members who are more confident about taking investment risk in the expectation that their pot will grow faster. 70% of this fund is invested in equities, with a higher proportion in emerging markets than the default fund. We have not included emissions from sovereign debt - makes up c. 1.5% of the fund - in the aggregate for this fund due to the issues around aggregation outlined above.
- › **Lower Growth Fund:** This fund is provided for members who are very cautious about investing and are prepared to accept their pot will not grow very much. The aim of the fund is to maintain the value of members' savings after all scheme charges over the long term. It may not keep up with the rising cost of living. All of this fund is invested in bonds.

You can read more about the asset allocation of our retirement date funds in our [quarterly investment report](#). We are not reporting separately on Nest's post-retirement option, the Nest Guided Retirement Fund.

The relevant metrics for each fund choice are presented in Table 3 below. See appendix for the asset class breakdown of each fund.

Metrics by fund choice

Table 3A: Carbon emissions metrics by fund choice

Fund choice	Absolute emissions (tCO ₂ e)		Carbon footprint (tCO ₂ e/£m)		Year-on-year change in carbon footprint (%)	
	Scope 1+2	Scope 3	Scope 1+2	Scope 3	Scope 1+2	Scope 3
Ethical Fund	1,808	241,828	21	230	-12%	-30%
Sharia Fund	17,970	11,317	86	22	+569%	n/d
Higher Risk Fund	81,081	271,696	50	174	-90%	+139%
Lower Growth Fund	256	4,198	17	291	-4%	+157%

Table 3B: Data quality and portfolio alignment metrics by fund choice

Fund choice	Data quality – % of holdings for which						Portfolio alignment (% of assets with SBTi target)
	Scope 1+2 data			Scope 3 data			
	Reported	Estimated	Unavailable	Reported	Estimated	Unavailable	
Ethical Fund	90%	9%	0%	28%	69%	2%	45%
Sharia Fund	0%	84%	16%	0%	84%	16%	39%
Higher Risk Fund ¹¹	95%		5%	95%		5%	34%
Lower Growth Fund	71%	5%	24%	38%	37%	25%	22%

n/d: denotes no data; n/a: denotes not applicable for the asset class

What the data shows

- Ethical fund:** The majority of the ethical fund is invested in ethical equities and corporate bond funds, with a small proportion in property, sovereign bonds, and renewable infrastructure assets. The equities portion of the fund saw a small decrease in its Scope 1 and 2 footprint which was driven by a emissions reductions by SSE, the utility company. Two of the largest contributors to the equities carbon footprint – Acuity Brands and Xylem Inc – made significant reductions to their carbon emissions, which contributed to the decline in the fund’s overall footprint. There have been substantial improvements in the emissions data coverage for the bonds held in the fund (from 56% to 97%). The issuers now included in the footprint calculations now have a lower average carbon intensity, which is one driver of the reduction in the footprint. Other drivers include scope 1 and 2 reductions by CRH and DS Smith, as well as sales of bonds from a minerals and a transport company.
- Sharia fund:** This year we added a second asset class - Sharia compliant sukuk - to the Sharia fund, which is now invested in approximately 70% equities and 30% bonds. The fund’s equity investments are relatively high exposed to technology companies, which have a low Scope 1 and 2 footprint. The equity portion of the fund also saw its carbon emissions intensity fall year over year due to less exposure to high emissions sectors (like energy) and an improvement in in the weighted average carbon intensity in some sectors such as materials. The addition of Sharia compliant sukuk bonds to the fund lead to an increase in the overall carbon emissions of the fund.
- Higher risk fund:** The higher risk fund has a higher allocation to emerging market equities and high-yield corporate bonds than the default fund. The fund’s scope 1 and 2 footprint decreased significantly over the year as the fund divested from listed real estate assets. The increase in the fund’s scope 3 footprint is largely due to the increase in scope 3 emissions in the commodity equity

portfolio. The proportion of investments covered by SBTi aligned targets increased from 28% to 34% year on year, largely driven by an increase in coverage in the high yield fund.

- › **Lower growth fund:** The lower growth fund only invests in investment grade corporate bonds; two additional longer duration bond funds were added to the strategy this year. The scope 1+2 footprint stayed relatively flat year on year. The scope 3 footprint increased due to one of our corporate bond managers updating their scope 3 data sources and methodology. The availability of scope 3 data for the fund improved significantly: last year the fund's scope 3 data coverage was 28%, which has increased to 75%.

Targets

We aim to align the Scheme's whole investment portfolio with limiting global warming to 1.5C above pre-industrial levels by reaching net zero carbon emissions – across Scopes 1 to 3 – by 2050 or sooner.

To set a course for this ambition, we have set a 2025 target of a 30% reduction in Scope 1 and Scope 2 carbon footprint in our listed equity and corporate bonds portfolios from a December 2019 baseline. We have set a 2030 emissions reduction target of 50% on the same basis, which is in line with the need for global emissions to roughly halve by 2030 from a 2019 baseline to be on track for net zero emissions by 2050. This target translates to a decarbonisation rate of around 7% per year. We have communicated these targets to our investment managers and reflected them in our governance, strategy and risk management processes.

As a result of the challenges around data availability we have not yet set decarbonisation targets for alternative asset classes, although we are tracking emissions performance where possible and have set specific objectives for managers for all asset classes. We take account of our performance, as well as improving data quality and progress in the wider economy, including updates to decarbonisation pathways, when reviewing these targets. We will consider extending these targets to include Scope 3 emissions and a wider range of asset classes in due course. 53% of total assets in the default fund have specific portfolio-level decarbonisation targets for 2025. These are shown in table 4 below.

We are also mindful of the strategies available to us to reduce financed emissions, and the real-world impacts of doing this. For example, it is possible to reduce financed emissions through large-scale exclusions of carbon-intensive assets. However, such an approach is unlikely to have a significant impact on real-world emissions. In turn, it is unlikely to significantly contribute to meeting the goals of the Paris Agreement. By engaging with investee companies and encouraging them to decarbonise, we have a better chance of achieving real-world emissions reductions. We are working with our fund managers to assess the alignment of companies in assets in our portfolio with net zero, looking at their forward-looking commitments and targets in addition to their current emissions performance in line with the IIGCC's [Net Zero Investment Framework](#). These targets are helpful for individual portfolios but can be difficult to aggregate across asset classes as there is some subjectivity in assessing the alignment of companies' plans with the goals of the Paris Agreement. We will continue to explore setting targets using this methodology during 2025.

For our private markets portfolio, we have also set a target to invest at least £1.4bn in renewable energy infrastructure by 2030. At March 2025, we were on track to meet this target with £1.34 invested across infrastructure assets including solar, wind and battery storage.

Progress to date

Table 4 sets out the decarbonisation targets for each relevant mandate and the progress to date. We work closely with our investment managers to translate our high-level targets into fund objectives. We develop these targets on a fair share basis, reflecting the different starting point for different regions and asset classes. As a result, our 2025 target for developed market equities is more ambitious than our overall portfolio target. In aggregate, we have achieved a 30% reduction since 2019 in the carbon footprint for the scheme.

These changes have been driven primarily through asset allocation decisions, tilts, and exclusions in specific portfolios. Most portfolios are ahead of their targets.

Table 4: Targets and progress across portfolios

Portfolio	Decarbonisation rate and baseline year	2025 target implied by decarbonisation rate¹²	2025 actual performance
Developed market equities	-7% per annum, 2019 baseline	-30.6%	-50.5%
Investment grade bonds¹³	-7% per annum, 2019 baseline	-30.6%	-88.5%
Investment grade bonds short duration¹³	-7% per annum, 2019 baseline	-30.6%	-88.2%
Ethical equities¹⁴	50% by end-2029, 2019 baseline	-30.2%	-45.2%
Ethical sterling corporate bonds¹⁴	50% by end-2029, 2019 baseline	-30.2%	-44.9%
High-yield bonds¹³	-7% per annum, 2020 baseline	-30.2%	-34.3%

¹² The implied target is as at March 2023 assuming a 7% decrease per annum relative to the previous year's residual emissions figure.

¹³ Target is based on WACI rather than EVIC. WACI normalises by revenues and is therefore often preferred by investment managers for comparing potential holdings and making investment decisions, while the EVIC is generally the preferred approach for assessing the emissions financed by investors.

¹⁴ Only held in the Ethical fund choice.

Appendix

Table 5: Breakdown of funds by sub-asset class allocation as at 31 March 2025

Sub-asset class	2045 Retirement Date Fund	Ethical Fund	Sharia Fund	Higher Risk Fund	Lower Growth Fund
Developed market equities	41.4%	-	-	64.1%	-
Ethical Equities	-	57.6%	-	-	-
Sharia Equities	-	-	68.2%	-	-
Sharia compliant sukuk	-	-	31.8%	-	-
Global investment grade bonds	8.0%	-	-	-	4.2%
Ethical bonds	-	20.9%	-	-	-
Low-risk sterling liquidity	6.8%	0.4%	-	3.1%	28.4%
Hybrid property (UK direct & REITs)	6.6%	-	-	2.3%	-
Sterling corporate bonds	3.9%	-	-	-	3.7%
Emerging market equities	4.7%	-	-	7.3%	-
Global high yield bonds	4.0%	-	-	6.1%	-
Private equity	3.6%	-	-	5.6%	-
Sovereign debt	2.9%	-	-	4.5%	-
Sterling corporate bonds short duration	2.3%	-	-	-	21.1%
Renewables infrastructure equity	2.6%	7.6%	-	-	-
Global infrastructure equity	2.2%	-	-	-	-
Global short duration investment grade bonds	1.1%	-	-	-	18.0%
Thematic Equities	1.4%	-	-	2.2%	-
Diversified private credit	1.5%	-	-	1.4%	-
Sterling short duration investment grade bonds	0.9%	-	-	-	18.4%
Infrastructure debt	1.3%	-	-	-	-
Corporate emerging market debt	1.1%	-	-	1.6%	-
Direct property income	0.7%	-	-	-	-
Gilts	0.3%	2.7%	-	-	6.1%
Commercial real-estate debt	0.8%	-	-	-	-
Futures (commodities)	0.7%	-	-	1.0%	-
UK infrastructure equity	0.6%	-	-	-	-
Other (incl. cash and derivatives)	0.2%	-	-	0.4%	-
Commodity equities	0.2%	-	-	0.4%	-
Timber	0.1%	-	-	-	-
Direct residential property	0.1%	-	-	0.0%	-
UK direct property	-	10.8%	-	-	-

Glossary



absolute emissions

The total GHG emissions of an asset class or portfolio

asset

Something of economic value that an individual, an organisation, a corporation or a government owns, for example, a piece of property, a share in a company or a building or machinery.

asset class

A group of assets that have the same characteristics, for example, real estate, equities or bonds.

benchmark

A standard used to judge the investment performance of an asset or asset class. Stock and bond indices which track the average performance of a broad selection of assets are often used as benchmarks.

bonds

Loans, issued as tradeable securities, made between an investor and a borrower. Bonds are usually issued in the investment markets by corporations or governments.

carbon footprint

A measure of the emissions per million pounds (tCO₂e /£m) invested or financed.

carbon offset

Compensating for emissions by funding an equivalent unit of carbon dioxide saving elsewhere.

carbon pricing

Attempts to capture the external and often indirect cost of CO₂ emissions to society and shift this cost to the actual emitters based on their emissions. Carbon pricing forms the basis for regulatory instruments such as carbon taxes.

Climate Action 100+

Global investor initiative of more than 570 signatories with US \$54 trillion assets under management. It engages with the 100 biggest emitters globally and more than 60 companies considered instrumental to the low-carbon transition.

climateaction100.org

climate-aware fund

A fund invested in equities and based on a market index, but with overweighting and underweighting of company shares in certain sectors based on the companies' exposure to climate-related opportunities (when overweighted) or risks (when underweighted).

The methodology for 'tilting' our developed and emerging markets equities climate-aware fund was developed by us in partnership with UBS Asset Management and Northern Trust Asset Management, our investment managers for developed and emerging markets equities respectively.

commodities

Raw materials, such as coffee, wheat, cotton, gold and oil, which can be bought and sold.

default fund

A pension fund set up for members into which they are automatically enrolled.

The Scheme's default investment strategy, the Nest Retirement Date Funds, are target-date funds, where the investment objectives follow a glide path based on how far away the member is from their expected retirement date, year by year.

divestment

When an investor sells assets. This can be based on poor performance, ethical or governance concerns or social or political goals.

environmental, social and governance (ESG) factors

These are investment risks that investors consider when evaluating investments.

We believe that well-run organisations with sound ESG practices have a better chance of long-term success and profitability. This is set out among our investment beliefs.

equities

Shares in a company or other entity which can be bought or sold.

EVIC

Enterprise value including cash. The sum of the market capitalization of ordinary shares at fiscal year end, the market capitalization of preferred shares at fiscal year-end, and the book values of total debt and minorities' interests. No deductions of cash or cash equivalents are made to avoid the possibility of negative enterprise values.

financed emissions

Emissions that investors finance through their loans and investments.

green bond

A fixed-income instrument issued by companies or governments to raise money for environmental and renewable energy projects.

green finance strategy

Strategy put forward by the UK government in 2019 to support financing of companies developing sustainable, low-carbon technologies and increasing consideration of climate change and other environmental issues in the financial sector.

[gov.uk/government/publications/green-finance-strategy](https://www.gov.uk/government/publications/green-finance-strategy)

greenhouse gases (GHGs)

There are four GHGs that are linked to global warming: carbon dioxide (CO₂), methane, nitrous oxide and fluorinated gases. Over three quarters of global GHGs are CO₂.

The Greenhouse Gas Protocol, an international accounting tool, categorises GHG emissions into three groups or 'scopes':

- › **Scope 1** covers direct emissions from the reporting company's owned or controlled sources.
- › **Scope 2** covers indirect emissions from the generation of purchased electricity, steam, heating and cooling that has been consumed by the reporting company.
- › **Scope 3** includes all other indirect emissions that occur in the reporting company's value chain.

[ghgprotocol.org](https://www.ghgprotocol.org)

Institutional Investors Group on Climate Change (IIGCC)

European membership body for institutional investor action on climate change. Its work focuses on corporate governance, investor practices and public policy. IIGCC runs the European secretariat for Climate Action 100+.

www.iigcc.org

Intergovernmental Panel on Climate Change (IPCC)

United Nations intergovernmental body for assessing the science of climate change. The IPCC's assessment reports supported the creation of the UNFCCC and the Paris Agreement.

[ipcc.ch](https://www.ipcc.ch)

International Energy Agency (IEA)

Autonomous intergovernmental organisation established in the framework of the OECD (Organisation for Economic Co-operation and Development). It provides analysis, data and energy policy advice to member states.

investment beliefs

A set of values used to guide day-to-day investment decisions and strategy. Our investment beliefs are set out in our 'Statement of investment principles' (SIP).

[nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/statement-of-investment-principles.html](https://www.nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/statement-of-investment-principles.html)

investment committee

A group that oversees the overall investment strategy and approach of an organisation as well as the investment team. The Board delegates these powers to our investment committee, whose membership includes members of the Board and independent investment specialists.

investment manager

A third party that is responsible for implementing an investment strategy in an asset class or classes and for managing the portfolio of assets in which members' money is invested on their behalf.

investment return

The amount gained or lost on money invested in assets, usually expressed as a percentage. Annualised investment returns over several years help to demonstrate the longer-term performance of an investment.

investment risk

The probability, or likelihood of occurrence, of losses on an investment in assets, relative to the expected return on them.

investment strategy

The guidelines that lay out future investment goals and the rules and procedures to be used when making investment decisions. Investment strategy evolves in response to changes in the economy and investors' needs. We also prioritise members' needs when evolving our investment strategy.

market index

A hypothetical portfolio of investments used to judge the performance of types of assets or asset classes. An example is the FTSE 100 Index which calculates the value of shares in the 100 most highly capitalised companies on the London Stock Exchange. Some indices focus on particular sectors or geographic regions.

Network on Greening the Financial System (NGFS)

An international group of central banks and supervisors that works to help the financial system manage climate- and environment-related risks. NGFS develops scenarios for central banks, supervisors and financial institutions to use in risk assessments and stress tests.

Net Zero Asset Managers Initiative

A global association of investment managers who are committed to achieving net zero greenhouse gas emissions by 2050 at the latest. As at May 2021, 87 investment managers with US \$37 trillion in assets under management had signed on to the initiative.

netzeroassetmanagers.org

overweighting

When an investor purposefully increases holdings of a certain stock or group of stocks above the investor's normal target or above a designated benchmark.

In the case of our developed market equities climate-aware fund with UBS, we are overweighting companies who are having a positive impact on climate change relative to their peers – for example, investing more in renewable energy companies compared to pure fossil fuel companies.

Paris Agreement

The Paris Agreement was reached at COP21 in 2015, the 21st meeting of the decision-making body of the UNFCCC. Its central aim is to ensure global warming in the twenty-first century remains well below 2C above the average level recorded for the period 1850 to 1900 and to pursue efforts to limit global warming to 1.5C.

In total, 193 of 197 countries have ratified the agreement to date. Countries which have signed but not yet ratified the agreement as at 31 March 2022 are Eritrea, Iran, Libya and Yemen.

unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement

Partnership for Carbon Accounting Financials (PCAF)

A global partnership of financial institutions that work together to develop and implement a harmonized approach to assess and disclose the greenhouse gas (GHG) emissions associated with their loans and investments.

carbonaccountingfinancials.com/

purchasing power parity

The rate at which the currency of one country would have to be converted into that of another country to buy the same amount of goods and services in that country.

science-based targets

Targets adopted by companies to reduce GHG emissions are considered science-based if they are in line with what the latest climate science says is necessary to meet the goals of the Paris Agreement—to limit global warming to well-below 2°C above preindustrial levels and pursue efforts to limit warming to 1.5°C.

Task Force on Climate-related Financial Disclosures (TCFD)

Provides a framework for consistent climate-related financial risk disclosures for use by companies in communicating information to investors, lenders, insurers and other stakeholders.

[fsb-tcfd.org](https://www.fsb-tcfd.org)

underweighting

When an investor purposefully reduces holdings of a certain asset or asset class in relation to the investor's normal target or a designated benchmark.

United Nations Framework Convention on Climate Change (UNFCCC)

United Nations entity to address the threats of climate change. Adopted in 1992, it is the parent treaty to the 2015 Paris Agreement and the 1997 Kyoto Protocol.

unfccc.int

voting versus engagement

Most shares in publicly traded companies give their owners a right to vote on some of company decisions, including things such as whether to take over another company or approve the amount senior executives are paid. Voting usually takes place at each company's annual general meeting (AGM).

Engagement can be done by voting at AGMs or separately by engaging with companies directly or through investor groups. An individual or organisation with shareholder ownership has more opportunities for engagement.

WACI

Weighted Average Carbon Intensity. Measures a portfolio's emissions intensity by calculating the weighted average emissions of the portfolio normalised by revenues.



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