

From ESG to impact: the Tesco pension fund journey



“The benefit in talking to peers is enormous. ESG is collaborative and people want to see progress across the industry.”

LAURA CHAPMAN

to reducing waste and increasing recycling and the greater use of renewable energy.

How do the Tesco pension funds operationalise members' RI preferences?

For the DC scheme, they used UN sustainable development goals relevant to members' priorities to build the bespoke portfolio, which also went through the governance process of their DC master trust – the *L&G Master Trust* – which ultimately creates two-layer governance alongside the oversight from the *Tesco DC Governance Committee*. This approach allows the DC investment strategy to align better with members' RI priorities.

Within the DB scheme, the trustee aims to broadly reflect these priorities in the underlying investments.

As well as integrating environment, social and governance (ESG) analysis into their investment due diligence, the Trustee sees ESG as an important element of its risk and financial management with the ability to influence for good through stewardship and engagement. Each year the Trustee sets engagement and stewardship objectives which it then monitors with the aim of delivering positive outcomes over appropriate and relevant timeframes. *Tesco* has also been a member of the *Occupational Pension Schemes Stewardship Council* since its inception which provides great insight and collaboration opportunities.

What is their approach to climate change?

The *Tesco Retirement Savings Plan* and the *Tesco PLC Pension Scheme* have interim targets and aim to be net zero by 2050. Although they do not have an impact mandate, *Tesco's* pension funds are part of *The Institutional Investors Group on Climate Change (IIGCC)* framework and are invested in various climate solutions, such as renewable infrastructure and sustainability-linked bonds. In particular, when investing in sustainability-linked bonds, it is vital to carry out thorough due diligence to investigate the true sustainability characteristics of the instrument.

Both the *Tesco Retirement Savings Plan* and the *Tesco PLC Pension Scheme* actively manage their portfolios to reduce emissions in line with their targets. For their *Task Force on Climate-related Financial Disclosures (TCFD)* reporting, they are pushing for improvements in data quality and are tracking this to assess what is affecting those metrics: changes in emissions, allocations or data improvements. When *Tesco* carry out scenario analysis for the *DB Scheme*, they consider not only the assets and liabilities but also the covenant.

How do they work with the sponsor?

As the *Tesco Retirement Savings Plan* is managed by the *L&G Master Trust*, its DC Governance Committee is essentially a corporate committee and therefore has corporate as well as member and independent

By Cameron Turner

This blog sets out a case study of how *Tesco's* DC and closed DB pension funds are approaching ESG and impact.

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This case study is based on a conversation held at a recent Global Impact Forum asset owner event between **Ruston Smith**, Chair of *Tesco Pension Funds*, **Laura Chapman**, Head of Responsible Investment at *Tesco Pension Investment Ltd*, **Christy Jesudasan**, Head of UK Fiduciary Management Sales, **Goldman Sachs Asset Management**, and **Cyprian Njamna**, Executive Director, Lead Portfolio Management Team, Multi-Asset Solutions at *Goldman Sachs*.

Members' views

When *Tesco* launched its defined contribution (DC) scheme, the *Tesco Retirement Savings Plan*, in 2015, work had already been done to optimise the plan's investment strategy particularly its responsible investment (RI) beliefs. The *Tesco Retirement Savings Plan* is managed by the *L&G*

Master Trust but *Tesco* has an added layer of oversight via its DC Governance Committee, including member representatives plus an independent, and also has an Investment Sub-Committee – supported by its advisors.

Tesco, however, really wanted to listen to and understand what mattered most to their members and so undertook an exercise with *ShareAction* and *C-Suite*, where member representatives met for three days. This was followed up with an online survey of 2,500 members. The focus was to understand members' priorities for their retirement savings and the language used, to inform the investment strategy and future communications. Members' three priorities for the *Tesco Retirement Savings (DC) Plan* were to:

- Maximise their savings.
- Keep their money safe.
- Invest responsibly.

So, how does a DC pension fund balance the pursuit of maximising savings while keeping members' money safe? For *Tesco*, this is, via a well-diversified portfolio that is relevant to each phase of its members' lifestyle journey and by optimising future expected net risk-adjusted returns. The DC Governance Committee also monitors members' future financial outcomes against projections through a dashboard to track how well the strategy is delivering. This provides a disciplined approach to review the strategy and members' future financial outcomes – similar to observing funding levels in a defined benefit (DB) scheme.

Colleagues and members' responsible investment priorities were also considered as part of the *Tesco PLC Pension Scheme* – *Tesco's* closed DB pension scheme. The three responsible investment themes that mattered most to members were:

- Protecting people's rights.
- Working towards a better society.
- Protecting the planet.

Under each of these priorities, members' included areas that represented them from fair treatment of people, fair pay, human rights, health and education,



representatives. For the DB Scheme, the *Tesco PLC Pension Schemes* ensures the sponsor participates in relevant discussions, for example, the sponsor has a representative on the RI sub-committee. This ensures transparency and collaboration.

How do they approach social issues?

As mentioned already, ESG analysis is a key element of risk management for *Tesco's* pension funds. 'S', the social element of ESG, is a priority for the *Tesco Retirement Savings Plan* and the *Tesco PLC Pension Scheme*. Both teams have been trained on this and other aspects of ESG and climate as part of their regular meetings but also through their away-day programme, where they invite external speakers for a broader view of developments. They believe a structured training plan is critical to allow the DC Governance Committee and DB Trustee Board to be informed before considering important issues.

The future

Tesco has listened to its members priorities and aims to appropriately reflect them in their responsible investment and stewardship strategy.

This year, the *Tesco Retirement Savings Plan* was named 'Pension Scheme of the Year' at the *Professional Pensions Awards* partly in recognition of the member research conducted and how the results have been reflected in the investment strategy.

Tesco recognises to continue to provide good long-term financial outcomes for members and to deliver on net zero, there still remains a lot of work to do. As part of that, *Tesco* needs to consider and manage the transition risk effectively, and recognises the importance of nature and biodiversity – where impact really matters.



Follow the link to read the original event post this article relates to.

- ***Cameron Turner is an Intern at Pensions for Purpose and recent Durham University graduate.***

